



# Capital Investment Planning Guidebook



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## Municipal Capacity for Development Project

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# 1. Introduction

## 1.1. Scope and content of the guidebook

This guidebook is aimed at helping municipalities in Georgia to enhance their competences in capital investment planning. It was created within the program: “Strengthening the Institutional Capacity of Georgian Local Self-Governments in Spatial Planning, Asset management and Capital Investment plans.”

The guidebook is addressed mainly to Georgian municipalities that have not established such a process yet or are interested in revising their current processes (in principle all municipalities implement investments therefore one may say that all have ‘a’ CIP system).

Before development of this guidebook the authors have visited a number of municipalities, what resulted in the following conclusions: Usually there are no written procedures on preparation of investments and no unified forms of information about projects. Scope of analysis made before decisions on project implementation are limited: there are no assessments of future operating costs for municipal budget, rarely any alternative options are analysed. Usually there are no strict criteria for projects selection. Therefore, public investment management still remains a field of possible important increase of effectiveness.

The Guidebook was prepared based on many source documents. The most important are:

- Methodological Manual (Ministry of Finance of Georgia)
- PIM Guidelines (Ministry of Finance Georgia)
- The Power of Public Investment Management: Transforming Resources into Assets for Growth. Directions in Development. Washington, DC: World Bank.

There is no universal approach to CIP. The one presented hereafter is based on the authors international experience but also on many discussions with representatives of LGUs in Georgia and other stakeholders. As much as it was possible the authors wanted to reflect the specific character of Georgian self-government. Nevertheless, the presented recommendations always have to be critically evaluated and implemented only if found justified in local circumstances.

The main role of the guidebook is to enable the municipality develop its own **CIP procedure** which should include at least: responsibilities, format of documents including application forms, rules and criteria of evaluation of projects (ideas and project proposals), as well as time schedule of the whole process.

**It is highly required that the procedure is adopted by the City Council.**



Next to the main text of the Guidebook you will find icons that help in better understanding and perception of the content:



For more advanced municipalities



Case study / example



Important



Reminder



Different options available

Within SRMIDP Technical Assistance Projects<sup>1</sup> two other guidebooks have been prepared on Asset Management and Spatial Planning. Other interesting material may also be found at the web site of the parallel Project Cycle Management project (<https://pcm.ge>)

## 1.2. Key definitions / glossary

**Benefit cost ratio (BCR)** - The ratio of total discounted benefits over a project's life to total discounted costs.

**Capital expenditure** is the expenditure on the acquisition of fixed assets. Fixed assets include tangible assets (buildings, structures, machinery, equipment) and intangible assets (information, communication, IT systems). Capital expenditure extends to major improvements (renovations, reconstructions or enlargements) of existing fixed assets. Capital expenditures are distinguished from maintenance and repairs expenses.

**Capital Investment Planning** – the process of planning capital investments (including project screening, pre-selection, appraisal, selection and budgeting) as a regular activity integrated with other activities of the local governments and based on principles of good public management

**Capital Project** is a group of activities with clearly defined objectives and outputs implemented over a fixed time schedule and through a temporary organizational structure. It should encompass all the activities and resulting outputs required to deliver sustainable benefits to the targeted final

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<sup>1</sup> Second Regional and Municipal Infrastructure Development Project

beneficiaries. Capital Project involves the creation of important infrastructure or significant and substantial improvement of the existing one.

**Cost-benefit analysis (CBA)** - quantitative assessment of costs and benefits of the project in monetary terms on the basis of alternative cost estimation.

**Cost-Effectiveness Analysis (CEA)** – determination of envisioned results of the project and choosing a project strategy to deliver them that minimizes total discounted capital and recurrent costs. This method is used where it is difficult or costly to place a monetary value on benefits or for choosing between alternatives that will deliver the same or very similar benefits/outputs. CEA can also take the form of calculating the cost per unit of output (that is, the non-monetized benefit).

**Discounting** - the process of determining the present value based on future values of e.g. costs and benefits. In other words, it is a process of converting the future amount into its present value. The process reflects the fact that 1 GEL in future has got lower value from today's point of view mainly because of uncertainty related to the future.

**Discounting rate** - an annual rate similar to the negative interest rate, on the basis of which future costs and benefits are reduced in order to determine comparable current values.

**Externalities** - are a positive or negative consequence of an economic activity (e.g. investment project) experienced by unrelated third parties without any financial compensation. Externalities are not reflected in the financial cashflows of the investor.

**Final beneficiary** - End-user of a new or improved product and/or service delivered through a public investment project.

**Internal Rate of Return (IRR)** - discount rate that gives an NPV of zero for a particular set of annual net benefits. This is the rate, which equalizes the sum of the discounted costs and the sum of the discounted benefits.

**LGU** – Local Government Unit, municipality.

**Net present value (NPV)** - sum of the discounted annual values of the net benefits of a Project (benefits minus costs).

**New project** – project which is approved by the municipal council for implementation for the next year budgets. A new project may come from a group of projects which already exist in the data base (existing project idea - PCN or Project Proposal are already in the data base) or may be a completely new project idea submitted in the current year (a new project idea).

**On-going project** - project which is approved in the current year budget or included in the plan for any of the next 3 years.

**Opportunity cost** - the value of a resource in its best alternative use. In economic analysis, the opportunity cost of a purchased input to a project is its marginal social value in its best alternative

use (not related to the project), or its value in use (measured by willingness to pay) if it is a final good or service.

**Project appraisal** – a process for making a decision on the project (including doing nothing) with the highest social and economic viability on the basis of a feasibility study.

**Project Performance** - performance of a project is measured in terms of its economy, efficiency and effectiveness. Economy means project inputs will be acquired at an acceptable quality standard and the lowest cost. Efficiency means the quantity of inputs used to produce a given project result/output will be minimized. Effectiveness means the project results/outputs will contribute to the successful achievement of the project purpose (and by extension the goal). It may take some time before there is sufficient evidence to demonstrate that a project has been effective.

**Project pre-selection** - a process by which a preliminary assessment of a project's strategic case, rationale, budgetary impact affordability and viability is made. This constitutes the first stage in the PIM process and involves preparing a project concept note as a basis for decision-making.

**Project prioritization / selection** - a process of comprehensively ensuring the most preferred option and making recommendations to final decision.

**Project concept note (PCN)** - An outline of the project concept prepared at pre-selection stage, after project identification and before a decision to undertake an in-depth analyses / feasibility study.

**Resource Cost** – the true economic cost of a good or services. It differs from a 'cost', such as a tax or customs duty, which is not a cost to the economy as a whole, but merely a transfer payment from one group of society to another.

**Social impact assessment** - an assessment of a project's potential negative and positive social consequences, such as effects on income distribution, poverty, unemployment, gender equality and others. A social impact assessment looks at who loses or gains from a project rather than the total value to society of the losses and gains (these are captured through the social cost-benefit analysis).

**Total project cost** - all costs and expenses required for a capital investment project, the total amount of financial resources necessary in order to achieve the envisioned results/outputs of an investment Project, regardless of funding source (state budget funding, donors' funds, loans and/or contributions of the beneficiary).

### 1.3. Outline of the CIP process

Public Investment Management Guidelines prepared by the Ministry of Finance describe six essential features of sound management of public investments: (i) project screening/pre-selection; (ii) project appraisal, (iii) project selection/budgeting, (iv) project implementation, (v) project monitoring, (vi) ex-post evaluation. The first 3 cover stage of preparation of capital investment plan.

- **project screening/pre-selection** - a process by which a preliminary assessment and pre-selection of projects take place, testing rationale of project idea. The decision-making process is carried on the basis of project concept note.
- **project appraisal** - a process of making decisions on the basis of economic and social effectiveness of the project. The decision is made on the basis of project proposal and feasibility study if necessary.
- **project selection/budgeting** - preparation of draft investment plan balanced with the available budgetary funds and other available funds from different sources e.g. RDF.

The whole CIP process may be described within 8 steps presented on the graph. It is up to a municipality how to set deadlines for particular steps indicated as milestones at the horizontal axis of time. However, a final CIP should be ready by 15 of November, when the budget is submitted to the Council. In the guidebook all steps are discussed in following chapters.



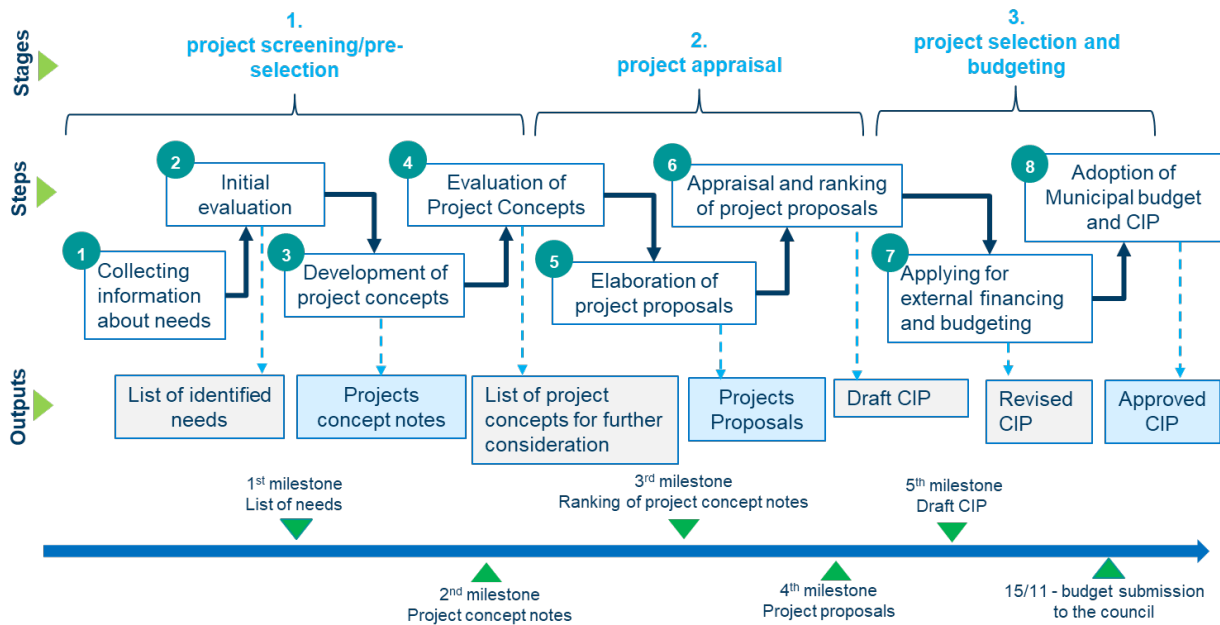


Figure 1: The CIP Flowchart

#### 1.4. Recommendations regarding staff

The functions in capital investment planning relate to all activities necessary to prepare capital investments for implementation at early stages. Development and updating of CIP should be a task of multidisciplinary team consisting of employees of different units and departments (**CIP team**<sup>2</sup> meeting periodically during preparation of the plan). There is no need to create special units of CIP. However, it is crucial that CIP process has its coordinator (owner of the process) within the municipality. The **CIP coordinator** should be skilled and equipped with necessary knowledge as well as should have a high formal position to operate across the municipal structure effectively.

Main responsibilities of the CIP coordinator are:

- To coordinate the entire process
- Organize meetings of the CIP team
- Ensure that the CIP team makes all of the required decisions
- Ensure that all involved parties carry out their tasks on the schedule (according to CIP procedure)

<sup>2</sup> Sometimes other terms are used: Working group, CIP Committee, or Steering Committee.

The coordinator of CIP should report directly to the Mayor (or deputy mayor) responsible for investments.

The CIP coordinator should have a broad understanding of municipal administration and be able to cooperate with stakeholders of the process.

Typically, the CIP coordinator would be an economist, an engineer or a management specialist. Members of the CIP team should originate from departments (units) responsible in municipality for investments, municipal infrastructure, municipal finances, strategic planning, procurement, attracting external sources of financing (if existing).

**The mayor or deputy mayor responsible for investments should be a head of the process.**

Make sure that:

- The process is coordinated by the person who has proper qualifications and at the same time the person is directly supervised to the decision makers, in particular the Mayor:
  - Qualified to make initial verification of applications
  - Socially skilled to communicate with different applicants
- The coordinator is in relation with the decision maker responsible for the final results of CIP



The roles and tasks of the staff in project preparation, project management and the decision-making process is partly shaped by legal circumstances and partly may be a decision of local authorities. We propose the following division of tasks:

<b>Step</b>	<b>Execution</b>	<b>Approval/ Supervision</b>
Step 1. Collecting information about needs	Infrastructure Department	CIP Coordinator
Step 2. Initial evaluation	Infrastructure Department	Mayor
Step 3. Development of project concepts	Applicants	CIP team
Step 4. Evaluation of Project Concepts	CIP Coordinator, CIP team	Mayor
Step 5. Elaboration of project proposals	Infrastructure Department and other departments	CIP team
Step 6. Appraisal and ranking of project proposals	CIP team	Mayor
Step 7. Applying for external financing and budgeting	Infrastructure Department or Financial Department or another appropriate department in the municipality (Unit responsible for applying for external sources)	Financing / Granting Institution
Step 8. Adoption of Municipal budget	Municipal Council	n/a

**Figure 2: The roles in CIP process**

The division of tasks as part of the investment planning procedure is presented in more detail in Appendix 6: The Capital Investment Planning procedure (example).

## 2. Project screening and pre-selection

### 2.1. Collecting information about needs (step 1)

Usually a project idea is a response to unsatisfied needs in the field of public services. That's why the collection information about needs should be a first step in the CIP process. Collection of information about the needs should be an on-going process which involves residents, representatives of local business, non-government organizations, etc.

Identification of information about the investment needs and problems on the basis of direct community needs and emergency situation is an on-going process.

However, there might be some other sources of project identification. These include:

- State / Regional plans
- Development Strategy
- Spatial and urban plans
- State of municipal assets
- Changes in law, related to the requirements regarding the quality and conditions of services delivered by the municipality and its unites (for example in 2017 the changes of the law transferred the responsibility for delivering and maintenance of school buildings to municipalities, what resulted with new investment needs)
- Emergency situations

The scope of information about each need should include:

- Description of the problem to be solved
- Localization of the problem
- Number of residents who suffer from the problem
- Priority of the owner of the idea among all the ideas delivered.

At this stage we don't speak about projects yet.

Examples of the simple application forms for investment needs are presented below.

APPLICATION FORM No. 1 – BASIC INFORMATION ABOUT INVESTMENT TASK		APPLICATION FORM No. 1 – BASIC INFORMATION ABOUT INVESTMENT TASK	
<b>Sym. and No. of Investment</b>		<b>Sym. and No. of Investment</b>	WBILK/030/98
<b>Name of Investment</b>	Building Multi-storey car park for 480 cars – Staszica street	<b>Name of Investment</b>	Łucznicza – Krasieńskiego: Building apartment building with housing for rent – around 300 flats
<b>Applicant</b>	KSM „Przylesie” and Councils of Subdivisions of the City	<b>Applicant</b>	Szczecińskie Towarzystwo Budownictwa Społecznego Sp. z o.o.
<b>1.1. Scope of Investment Task</b>		<b>1.1. Scope of Investment Task</b>	
Multi-storey car park for 480 cars		Building of apartment building with housing for rent together with parking and management of surrounding area.	
<b>1.2. Localisation</b>		<b>1.2. Localisation</b>	
Staszica street, land no. 17/669/4		Region around Łucznicza and Krasieńskiego streets	
<b>1.3. Type of Task</b>		<b>1.3. Type of Task</b>	
<input checked="" type="checkbox"/> Investment <input type="checkbox"/> Renovation <input type="checkbox"/> Investment purchase		Stage I – around 100 flats. Stage II – around 200 flats. Together with water pipe on Łucznicza street and transformer.	
<b>1.4. Purpose of the task</b>		<b>1.4. Purpose of the task</b>	
Development of undeveloped land, Resolution of burden of parking and guarding cars, relief of the strain of car parks between buildings and improving road safety.			

Figure 3: Example Application Forms

In more advanced municipalities the scope of gathered information may be extended and include in addition:

- A description of the scope of investment idea to be implemented
- An information about the property owner (if applicable)
- A number of residents who will benefit from project implementation
- Cost estimates
- A list of possible sources of financing
- Expected time of implementation.

Who may present their investment needs? In principle all stakeholders including:

- **Residents** – residents or groups of residents (directly or by their representatives) who identify rather a problem than the project idea,
- **Non-government organizations** – representing different social groups, e.g. disabled people, elderly people, social care sector, etc.,
- **Initiatives groups** - different groups of inhabitants who notices problematic situation regarding local infrastructure or who need infrastructure to support activities which they want to deliver to the community (in the most cases this group will consist of inhabitants of one or two streets / or residents of one block of flats / as well as inhabitants of the same housing estate, / also group of mothers who wants to organize a day-room for their children as an alternative for the kindergarten, etc.,

- **Organizational unites of the municipality** - unites of the municipal hall and unites which are external to the municipal hall (e.g. schools, kindergartens, municipal companies),
- **Local Business representatives** – in order to improve the functioning of public infrastructure which is a part of business environment or support the business undertaking.

How the investment ideas can be delivered? The most typical ways are:

- **Mails** – dedicated e-mail address which available at the municipal web site for all types of owners of the investment ideas. There should be also linked the template of the application form which includes minimum list of data which should describe the idea.
- **Website** – application form available directly at the municipal web site.
- 

In order to involve the citizens and initiative groups in the process of identifying of needs, the CIP Coordinator may coordinate regular meetings with their representatives, for example ones a year. Their attendance during the meetings will also allow to measure size of the support for the ideas delivered by these groups.



## 2.2. Initial evaluation (step 2)

In order to define whether the need/project idea should be considered in further steps the following (yes/no) criteria may be applied:

1. The idea is the subject to local government responsibilities.
2. The idea is reliable and answers public demand (there is a social support for the idea).
3. There are no overlaps among the ideas applied by different applicants.
4. The idea seems to be feasible in terms of technical, financial, environmental and legal aspects.

Ad. 1. The main objective of initial evaluation is to select ideas which are related to municipal responsibilities. It is reasonable to consider such ideas as project proposals in the next steps. All ideas going beyond the municipal tasks should be rejected at this stage.

Ad. 2. At this stage evaluators should make sure that projects will bring considerable benefits to the local community. One of the ways to do it, is to verify if the project idea has sufficient social support. The social support at this stage of the CIP process should be assessed very generally and may be measured according to the following information: number of residents who apply, number of inhabitants of village where the idea is planned, opinions expressed in the local newspaper, etc. The social support may be also evaluated according to the priority directly indicated by the applicants of the idea (the higher priority among all ideas applied the greater support). It doesn't mean that the municipality should implement only projects with a distinct social support. There are many investment needs which contribute to the local development but they will not be popular among society e.g. garbage dump or sewage treatment plant. Such projects will be identified in departments of the municipal hall rather than applied by residents. It should be justified if the social support is the key access criterion or not for every project idea individually.

Ad. 3. Before the project idea will become a project proposal, the evaluators should verify possible overlaps among ideas applied by different applicants. It is possible that the same problem may be addressed by another applicant in their project idea.

Ad. 4. Although at this stage there is no need to carry out comprehensive feasibility study, experienced project evaluators should be able to identify and reject projects that for obvious reasons are not feasible (financially, technically or because of environmental issues etc.).

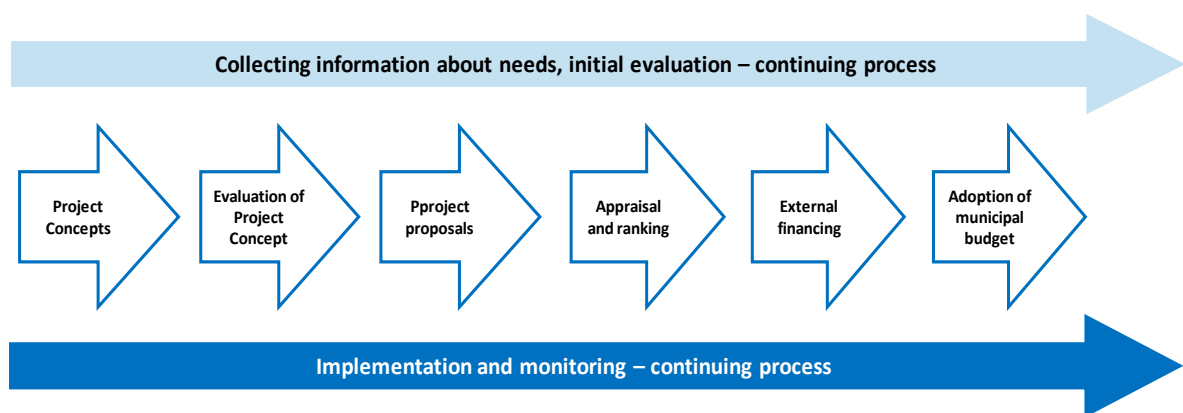
**Practical Tips:**

1. Make a list of all needs/ project ideas applied and keep them in archives.
2. Respond to every applicant presenting needs / project ideas. Try to justify your decision (if negative) and instruct how this idea may be improved in the future.
3. Organize initial evaluation process transparently and use a checklist.

The deliverable of this should be a list of identified investment needs (or project ideas).

Collecting information about needs and initial evaluation are continuing processes, similarly to the implementation and monitoring. The applicants are entitled to submit their project ideas all over the budgetary year. The concept notes and the proposals will be next prepared according to terms established in the CIP and budgetary procedure. Recommended deadline for delivering of project idea applications could be the 30<sup>th</sup> of April.

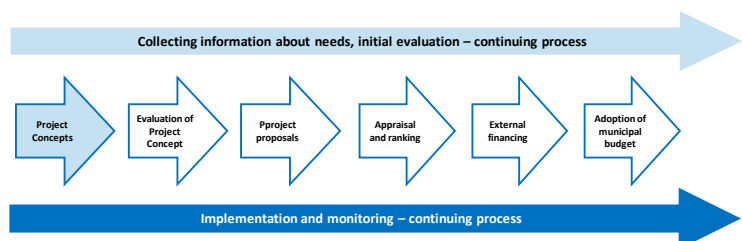
The project ideas that will be delivered after the deadline established in the CIP procedure will be included in the next year evaluation process.



### 2.3. Development of the Project Concepts (step 3)

#### The role of the Project Concept Notes (PCN)

The development of the project concept notes is a part of the project screening and pre-selection stage. The Project identification is formalized in the



PCN which must be prepared for all public capital investment projects. In many cases the basis for the project concepts is identified in the previous stage: collection of investment needs. However, there should be explained that not all the projects prepared in the form of project concept note require prior submitting of investment ideas. Some of them may be applied directly on PCN form. It applies for example to infrastructure projects which are important for the whole municipality and are usually directly developed by the municipal



engineers in a full PCN version. The PCN is intended to be an aid to early decision-making and should not simply be treated as an administrative task.

The format of the project concept note is attached as appendix 1. This format includes a minimum scope of information and it is possible to extend this scope if necessary, by each municipality.

#### **A. Administrative information**

There is necessary information about project, for example: name, unit submitting the project, unit responsible for project implementation, official responsible for the project, etc. *(points 1-6 in the form).*

#### **B. Project Rationale and Assessment of Needs**

The starting point for a project solution should be a clear **identification of the problem** *(point 7 in the form)* that needs fixing and its severity. The problem should be defined in terms of negative effects experienced by the economy or society.

There should be answered the following questions:

- Where the problem takes place?
- Who is the most affected by the problem?
- How long the problem lasts?
- What is the intensity of the process?
- What are the results and severities?

For more advanced level of application form (Level 2<sup>nd</sup> and 3<sup>rd</sup>) additional information about the causes of the problem should be indicated, like for example: demand for new services, new infrastructure built nearby (new housing estates), lack of repairs resulting in poor technical conditions of infrastructure. The additional information should give a justification of the severity of the problem. They will be used to prioritize the project on the top of the list.

## **EXAMPLE:**

### **Construction of the viaduct over the railway line**

**WHERE?:** The southern district of the City. Area is crossed by a transit transport route. Technical infrastructure is mostly in poor condition (especially the pavements of streets, water supply, storm water drainage and sewerage). The main entrance to the City on the south side is very run down. A characteristic feature of the district is the intermingling of industrial, storage, commercial and residential functions.

**WHO?:** Residents of southern districts - bedroom districts of the City and additionally residents neighboring 3 municipalities traveling „to” and „from” work.

**INTENSIVITY?:** In the morning and afternoon rush hours can be observed a significant inefficiency of the transportation system.

**HOW LONG?:** From several years. The problem becomes greater because railway traffic is constantly increasing in the last years.

**RESULTS:** traffic jams on national road 91 obstruct reaching the destination of their journey on time, lack of safety for pedestrians because of the their current crossing directly through the tracks in Sandomierska street.



Source: [www.gdansk.naszemiasto.pl](http://www.gdansk.naszemiasto.pl)

A critical component of the PCN and a core pre-selection criterion is the **strategic case** for the project (*point 8 in the form*). There should be explained in the PCN how the project implementation is going to solve the problem. First answer is what we propose to do and why the solution is the most required.

In more advanced version of application form there should be demonstrated other possible solutions including doing nothing (alternative solutions).

## **EXAMPLE:**

**PROPOSE TO DO:** Construction of a viaduct over the railway line

**WHY?:** This project will significantly solve the diagnosed problem, which will greatly facilitate transportation in the south-west of City and will facilitate access to the city from neighboring towns.

### **ALTERNATIVES:**

**Non investment:** Change the sequence of traffic lights, take measures to reduce traffic in the area (e.g. to encourage drivers to use public transport).

**Investment:** It should be a subject of additional studies. One of the possibilities is building the tunnel under the railway.

**Doing nothing:** The problem will be raising because of the raising population in the southern districts.

The next step is to identify the target group of final beneficiaries (including the end-users of the services provided by the project) (*point 9 in the form*). In more advanced case it might be also indicated number of indirect beneficiaries if known.



**Number of end-users of the project** implementation is required in the advanced version of the form. This should include as well number of **existing users** as **predicted number of new users** who will appear as a result of building / modernisation of infrastructure. It gives an approximate assessment of likely **demand for the services** provided by the project (*point 10 in the form*).

For example, when the new water supply network is going to be built there should be included the number of households which are already connected to the network and additionally households that are predicted to be involved into the system.

**EXAMPLE:**

**WHO WILL BENEFIT?:** The residents of the City, especially residents of two districts, which population amounts to 64 390

**HOW MANY IN THE FUTURE?:**

It is predicted that **in the next few years, the number of inhabitants in the two districts will increase by about 20%**, which will also have consequences for the increase in journeys by the described rail crossing (about **3-4% per year**).

Next step is related to **consequences of rejecting the project** (*point 11 in the form*). This information is going to illustrate the consequences of rejecting the project in a descriptive way. In more advanced version of application form (level 3). it should be given in a quantitative way, for example costs of necessary repairs or additional maintenance costs of the infrastructure, fines caused by exceeding norms. etc.

Furthermore, the PCN requires a description of the **project scope** (*point 12 in the form*) supported by an explanation of how it represents a comprehensive solution.

## **EXAMPLE:**

Development of the [conceptual design](#) for the construction of a multimodal transport hub in the City

Development of [construction design](#) for the construction of a viaduct over the railway line

Development of [environmental documentation](#);

Development of [feasibility study](#)

[Construction works](#) (road crossing, viaduct, sidewalks etc.).

For bigger projects or in case of more advanced municipalities the PCN should include indicative capital cost estimates for the project and relevant alternatives. The latter should include any alternatives that have been rejected because of high costs, as well as alternatives that are considered worthy of further examination.

Last information needed in the form are possible connections with other investments (*point 13 in the form*). The connections might be of different types. However, for purposes of the concept note preparation the information should be more general. The Coordinator should be able to identify main risks and possible scope of work that is going to be developed in more detailed during the project proposal preparation.

First of all it is required to indicate such projects which should be implemented parallel or in the given order, for example: building the road there should rebuilt or modernized the sewage network located under the road or there should be put a new water network for investments planned in the future. You need also to consider if among projects which are subject of different applications are those which implementation should be connected with other analysed projects. If there are any, the recommendation should be to join them in one proposal.

During the next step in the CIP procedure (project proposal preparation) the existing infrastructure (especially underground infrastructure) should be recognized and examined in very detailed as well as the owners of the infrastructure should be identified. It enables adequate planning of the real scope of work in the project.

### **C. Benefits from the project implementation**

Benefits should be considered in different aspects: social, economic, cultural and environmental (*points 14 and 15 in the form*). It is required to present expected benefits

from the project implementation of all types if they are. Benefits should be identified according to the importance starting from the most profound.

More advanced application form should also include benefits and costs for **direct users** and **other - intangible benefits and costs**, which are difficult to value.

**EXAMPLE:**

### Construction of the viaduct over the railway line

Benefits for direct users (drivers and pedestrians):

- **Improved safety** - reducing the number of accidents involving pedestrians crossing closed boom barriers
- **Time savings for drivers** – average waiting time per hour before the boom barriers during rush hours is approx. 23 minutes.

Intangible benefits:

- improved travel comfort, increased residents’ satisfaction, increased life comfort

It is also value to indicate how the investment may support positive or negative effects in other sectors.

**EXAMPLE:**

Other benefits:

- **Reducing environmental pollution and greenhouse gas emissions, as well as noise reduction**
- **Increasing the city’s attractiveness for business** – increasing the number of areas in the city potentially attractive for investment, increasing of efficiency in local businesses.
- **Increasing the city’s attractiveness for tourists** - the efficiency of travelling in its area is one of the key aspects that influence the perception of the city by potential visitors.

Below presented examples of project benefits for different types of projects should be adjusted to singular projects. In every project case the project benefits might be different.

<b>Economic development sector</b>	<b>Educational sector</b>	<b>Public administration sector</b>
<ul style="list-style-type: none"> <li>◦ Possibility of maintaining or increasing employment</li> <li>◦ Possibility of increasing wages</li> <li>◦ Benefits for specific population groups (poor, old, disabled people)</li> <li>◦ Creating conditions for the implementation of private investments</li> </ul>	<ul style="list-style-type: none"> <li>◦ Increasing basic skills and knowledge among students</li> <li>◦ Better preparation of students to the university exams</li> <li>◦ Better preparation to entering the labor market</li> </ul>	<ul style="list-style-type: none"> <li>◦ Higher level of services provided directly to residents</li> <li>◦ Offering new or chipper services to residents</li> </ul>
<b>Rainwater management system</b>	<b>Revitalization of destroyed areas in the City</b>	<b>Cultural sector</b>
<ul style="list-style-type: none"> <li>◦ Avoiding damages to residential,</li> </ul>	<ul style="list-style-type: none"> <li>◦ Improvement of housing</li> </ul>	<ul style="list-style-type: none"> <li>◦ Increase of cultural offer for</li> </ul>

<p>economic (industrial, service) buildings and utilities, private and communal property;</p> <ul style="list-style-type: none"> <li>○ Avoiding damage to communal infrastructure and telephone lines</li> <li>○ Avoiding road infrastructure damage and reduction of traffic congestion</li> <li>○ Limiting the effects of extreme meteorological phenomena</li> <li>○ Minimization of flooding</li> <li>○ Reduction of costs associated with rescue operations</li> <li>○ Minimizing of local environmental pollution due to damages to installations and technical equipment and release of noxious substances to the environment</li> <li>○ Reduction of risk to the life and health of the residents</li> </ul>	<p>conditions of the inhabitants of the city</p> <ul style="list-style-type: none"> <li>○ Development of entrepreneurship and reduction of unemployment</li> <li>○ Increase in the value of private property in the revitalized area</li> <li>○ Increase of sense of security</li> <li>○ Improving the quality of public space and the availability of public services and safety</li> <li>○ Creation of infrastructure for social integration</li> <li>○ Adaptation of public spaces and facilities to the needs of disable people</li> </ul>	<p>inhabitants</p> <ul style="list-style-type: none"> <li>○ Alternative ways of spending time for teenagers</li> <li>○ Increase the attractiveness of the municipality</li> <li>○ Promotion of the municipality in the region</li> </ul>
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**Figure 4: Project Benefit Sample**

#### **D. Compliance of the Project with strategic goals**

The PCN should demonstrate the project’s relevance to the Government’s strategic priorities and sector policies (*points 16 and 17 in the form*). This is a key requirement that must be fulfilled, even if the project demonstrates a logical case for intervention and adequate demand.

#### **EXAMPLE:**

The project is consistent with government intervention in the national economy. The solution to the diagnosed problem in the proposed time schedule is in compliance with the schedule of implementing of the national and local strategies Long-term National Development Strategy, Transport Development Strategy up to 2020.

#### **E. Affordability**

Every investment project influences the municipal budget in two ways: operational budget and investment budget.

#### **Operational budget**

The influence on the budget may be **positive** (e.g. increasing revenues, reduction of maintenance costs) or **negative** (e.g. increase of maintenance costs, especially when new infrastructure is going to be built). The budgetary impact should be indicted before the project will be implemented. Additional savings or costs should be also included in the budget predictions (*point 18 in the form*).

## Investment budget

The influence on the investment budget is dependent on the external financing for the project, especially different subsidies and grants which may be affecting the reduction of engagement of own financial means for investments from the municipal budget.

Additional or external sources of financing have positive impact on the municipal budget. Possibility of obtaining them should be indicated in the application form in order to help making decision from the budgetary point of view.

### EXAMPLE:

## Construction of the viaduct over the railway line

- Operational costs are financed from the budget – predicted increase about 10% in relation to the current costs (should be involve in the budget from 2023)

### F. Sustainability issues

It is important to specify how the new/renovated infrastructure will be managed, precisely who will be responsible for its maintenance and operation.

### G. Project costs

There should be provided an estimation of project costs - investment costs. It is important to include all possible sources of financing (budget, external sources, e.g. grants, etc.). If possible costs should be divided into parts: project preparation costs, acquisition of land, construction works, purchase of equipment. In more advanced application form there should be used table template where the costs according the sources of financing are presented.

### EXAMPLE:

Main stages	2017	2018	2019	2020	2021	2022	2023
Preparation stage – documentation			100 000	919 460			
Implementation stage – construction:							
Budget funds – 50% of total costs					500 000	2 500 000	2 500 000
External funds - 50% of total costs					500 000	2 500 000	2 500 000

Figure 5: Project Cost Phasing

- Sources of financing of investment costs:
  - Municipal budget – funds secured by the resolution of City Council
  - UE funds for preparation of the documentation – application is under preparation
  - UE funds for implementation – there are recognized possibilities to obtain funds, application is going to be prepared

The main objective of this step is to verify if the idea is solving the problem, whether the project is feasible and if it is rational regarding the expected costs and benefits.

The project concept should answer main questions which are related to the pre-selection criteria.

Projects which do not meet the expected results may be dropped at this stage so they will not be completed in form of the Project Proposals (PP).

The concept of the project is usually prepared on the basis of researches and analysis carried out by municipal staff (and applicants). At this stage no external support is necessary.

### **Submission of PCNs**

The CIP procedure should indicate who is entitled to submit the project concept notes.

In the most cases the applicants of the project concepts are internal unites in the city organisation, for example: different departments of the city hall in particular infrastructure department, sometimes different organisational unites if they are responsible for infrastructure management. In the target model for CIP there should be more unites involved at this stage which are competent in different subjects (for example education, social infrastructure). It enables better recognition of needs and more adequate description of the proposed solution.

It should be also explained that the concept note preparation needs more effort and knowledge than describing the project idea (presented in chapter 2.1). That is the reason why the list of possible applicants should be created including the most competent representatives of the city administration.

List of possible applicants:

- municipal council representatives (for example different commissions in the city council, however they are rather authors of investment ideas, which are next elaborated by the employees of the city hall or any of organisational unites),
- departments of the municipal hall,



- organizational unites of the municipality,
- budgetary unites,
- Public Legal Entities,
- non-commercial and non-profit legal entities,
- utilities.

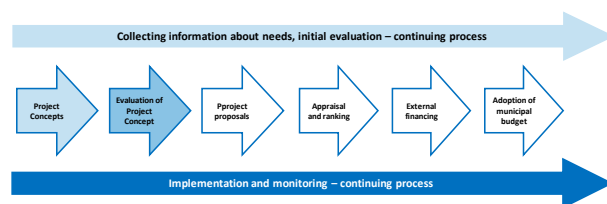
In some case, among applicants there may also be residents, however they will probably need assistance/ consultation in development of PCN because of lack of professional knowledge. For that reason, there should be indicated **infrastructure department** in the municipal hall providing such services.

Submitting ideas for the new PCNs is a continuous process. Applicants should have an opportunity to submit their proposals throughout the year. However, there is a certain deadline during the budgetary year after which PCNs will not be accepted and considered in this particular year (compare the practical tips in chapter 2.2.).

It is recommended that all projects should go through evaluation process. It is recommended that all projects should go through evaluation process. However, projects which were already submitted in previous years but they were not included in the CIP, do not require preparation PCNs but only updating already submitted ones. Therefore, the PCN should be submitted both for new projects and so called, on-going projects.

## 2.4. Evaluation of project concepts (step 4)

It is recommended that evaluation criteria should include at least the following:



Dimensions/Judgment Criteria	Basis for evaluation in the PCN	Evaluation (yes/no)
<b>A. General review</b>		
1. The PCN is complete, what means that all parts of the form are fulfilled.	The whole PCN	
2. The information provided in the PCN is adequate to arrive at a <b>pre-selection opinion</b> .	The whole PCN	
<b>B. Project Rationale and Assessment of Needs</b>		

Dimensions/Judgment Criteria	Basis for evaluation in the PCN	Evaluation (yes/no)
3. There is an urgent need, i.e., within the next 3 years, for the services or facilities of the project as demonstrated by evidence of one or more of the following: <ul style="list-style-type: none"> <li>existing or projected demand for a facility or services is higher than the capacity of the existing infrastructure (public object is too small or technologically obsolescent);</li> <li>demand for new services not previously provided;</li> <li>technical condition of the facilities and equipment is bad.</li> </ul>	7,8	
4. The proposed solution is suitable for identified needs and contributes to solving of the problem.	7,12	
5. Consequences of rejecting the project seem to be relatively costly.	11	
<b>C. Benefits from the Project implementation and alternative solutions</b>		
6. The postulated project benefits are addressed to the bigger group of citizens (residents of the whole district, the whole city) or the group of citizens who are the priority group for government (for example children, disabled people).	9,14	
7. There are postulated other types of benefits like economic, ecological benefits.	14,15	
<b>D. Compliance of the Project with the Strategic goals</b>		
8. The project will contribute to the achievement of relevant strategic goals and objectives of one of the following strategies: <ul style="list-style-type: none"> <li>national or regional or sector strategic plans;</li> <li>municipal strategy.</li> </ul>	16	
9. The project is in compliance with the priorities for the next year.	17	
<b>E. Financial Affordability</b>		
10. There are external sources of financing of the project. Any co-financing requirements have been identified and are very likely to be secured.	19,22	
11. The project positively influences the municipal budget (predicted decrease or savings in maintenance costs or increase of budgetary revenues).	18	

**Figure 6: Example of evaluation criteria for project concepts**

Evaluation stage should be supervised by the CIP Coordinator, who is responsible for initiating of all steps necessary in the CIP preparation. Work on the initial evaluation of projects can be organized in different ways. It should depend on the number of projects applied. The CIP Coordinator himself should review the PCNs in terms of the completeness and accuracy. If any information or data is missing the Coordinator should contact the relevant applicant in order to complete it or explain the reasons for submitting incomplete forms.

For the evaluation of the content the Coordinator may involve the infrastructure department, for example, in order to justify/ evaluate economic and social benefits. At this

stage the infrastructure department may also be helpful in completing missing information and data.

The opinion which includes evaluation and recommendation for example projects on the basis of concept notes is presented below. It is highly recommended that the evaluation and recommendation should include the opinion of infrastructure department in terms of proposed scope of works within the project.

### EXAMPLES

**Project 1:** Name of Project - **Project Rehabilitation of Vashlovani Street**, responsibility - **Economic Department**

1. The project is a responsibility of the municipality.
2. There is a strong demand from the society – pedestrians and local shopkeepers, because people can't move comfortable on the street – on foot as well as by car, the basis for a judgment is public opinions, talks to inhabitants of the area (it would be confirmed with some data).
3. The project scope needs to be completed with any other infrastructure which is planned to be built under the road. There is some risk about the unknown condition of infrastructure which is placed under the road. It is recommended to wait until the drinking water rehabilitation project will be completed (it is still under the construction)
4. The idea is feasible, main reasons are: it is existing road so the municipality is the owner of the land, no risk with the land conditions, but while choose the technology and priorities it should be taken into consideration that long investment process will cause loses for shopkeepers.
5. Expected results of the project are profound as there are expected benefits for the whole society so they can balance other social priorities.

**Final recommendation is to prepare the project proposal taking into special consideration the following:**

- It is necessary to make the inventory of the existing infrastructure under the road and if possible, to assess its condition
- There should be made arrangements with the owners of the inventoried infrastructure
- It might be necessary to secure funds in the budget of the project for the additional costs which might appear in relation to above mentioned infrastructure
- The technology for the road surface should be cost effective what means that investment costs should not be very high not to make easier the decision about project implementation
- There should be examined if there is a necessity of other underground infrastructure in the future and should be included it in the project (e.g. building the technical tunnel)
- The implementation schedule should take into consideration individual needs of local entrepreneurs and inhabitants and should be prepared in more detailed way (including preparation works)
- The priority of the project is high

**Project 2: Name of Project - The construction of a kindergarten in the village of Vashlovani, responsibility - Head of the Department of Economic Affairs**

1. The project **is** a responsibility of the municipality.
2. There **is a demand** from the society – inhabitants of the village who have small children, the basis for a judgment is opinions of the villagers and data about the employment of mothers (it would be confirmed with some data).
3. The project scope needs to be **completed with** any other infrastructure which is necessary for the kindergarten (roads, water and sewage network, electricity, etc.) depending on the location.
4. It is **difficult to assess if the idea is feasible**, main reasons is that the location and the technical assumptions of the project are going to be developed. There are no analysis about the efficiency of the project in comparison to the alternative solution which is to deliver children to another village.
5. Expected results of the project are limited to a group of people from one village so it **should be proved that they can balance** social priorities of the whole city.

**Final recommendation is to prepare the project proposal taking into special consideration the following:**

- It is necessary to explore the public support in more details in comparison to the priorities of the whole municipality and the demographic trends in the municipality
- There should be proposed location of the kindergarten – specific plot where the building can be built
- It should be analyzed the alternative solution in more detailed way taking into consideration effectiveness of building new kindergarten and delivering children to the existing ones as well as renting the space for that purpose
- The necessity of additional infrastructure around the kindergarten (roads, water and sewage network, electricity, etc.)
- The priority of the project is low at the moment

A final result of the evaluation process should be a list of approved projects or a ranking of PCNs. The list can have different forms, for example list of projects published on the web site, letters sent directly to applicants.

Approved concepts of the projects should be the subject to further elaboration in a form of project proposal. If a project concept is not recommended for further elaboration - a written justification should be sent to the applicant.

The process of Project Concept preparation and its evaluation is presented on the below scheme.

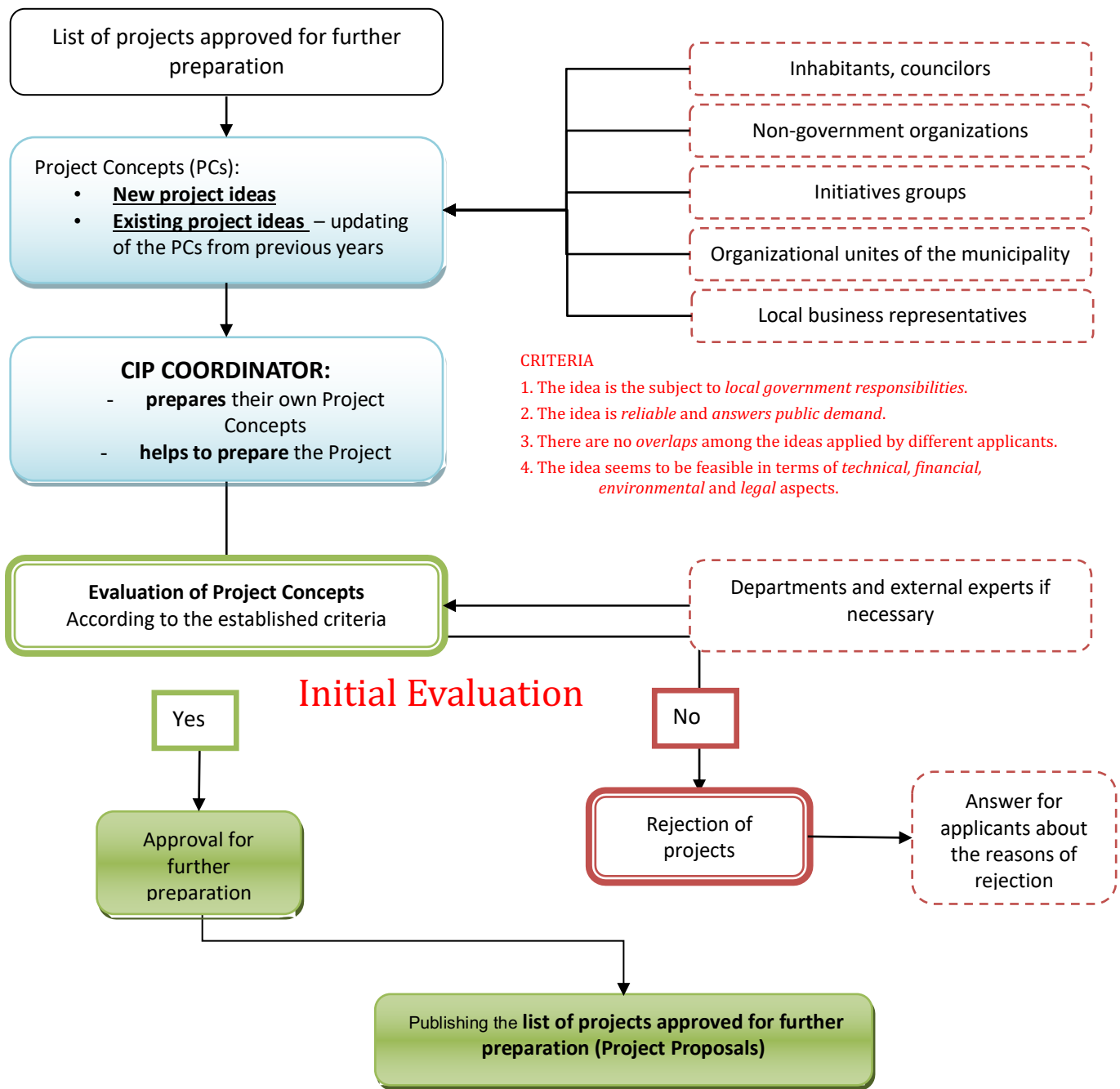


Figure 7: Project Preparation Schema

## 2.5. Roles, responsibilities and decision-making process

The goal of the project pre-selection process is to exclude such projects, which are not consistent with the priorities of the Government or a particular sector, region or municipality, or which probably are not cost-effective and/or are less effective from economic point of view due to the budget constraint. For this reason, it is necessary to involve a number of skilled and experienced employees in the evaluation process. As it was already mentioned different units or entities may submit their PCN. It is important to separate the function of applicants (project implementers) from evaluators (CIP team).

In many cases the municipality infrastructure departments will be responsible for development of the projects concepts or will provide assistance to the external stakeholders in preparation of their PCNs.

In each municipality a CIP team should play a role of evaluators. It is recommended that the team should consist of 3-5 people from different municipal units -and report



directly to the Mayor/ deputy mayor responsible for investments. It is an open question to what extent the group should include people from outside of the administration. It is usually wise to invite some external experts who

may help in technical assessment of the proposals, especially when it comes to the expected future impact of projects. It is rather recommended for bigger projects.

The municipality may decide on including external experts in the process of projects evaluation. On the other hand, the work may be done entirely by administration.

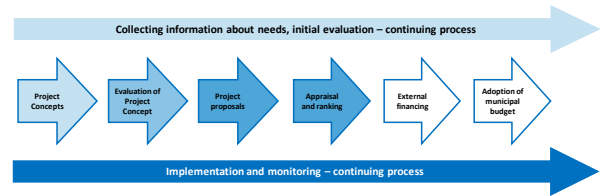
The team's role is also to work-out details of local methodology and to prepare the final recommendations of projects for Capital Investment Plan and the budget.

## 3. Project appraisal

### 3.1. Introduction: aims of project appraisal

Project Appraisal aims to answer the following overarching questions concerning a project proposal:

- What is the objective of the proposed project?
- Are there no better ways to achieve the objective than the proposed project?
- Are there no better uses for the resources that will be employed?



### 3.2. Elaboration of project proposals (step 5)

Before the approved project concept notes become valuable project proposals certain work has to be done. It mainly means gathering additional information about the projects and answering a number of questions in order to fill in the project proposal form. The form is attached to this guidebook as [an appendix 2: Project Proposal template](#). Project Proposal form includes information and data already prepared for Project Concept but they are more detailed. Data for project proposal, if necessary, might be based on additional analysis, for example feasibility study or a survey.

The project proposals should be prepared **by the departments of the municipal hall** (or other units related to the municipality) according to their responsibilities for fields referred to in particular project concept notes. In most cases this will be a department dealing with infrastructure.

For selected projects - obligatory in case of capital expenditures exceeding GEL 5 million - **development of feasibility studies** may be required at this stage. Taking into consideration potential costs of ordering a feasibility study it should be individually considered if it is necessary for smaller projects. Scope and methodological approach of the feasibility study is presented in appendix 5.

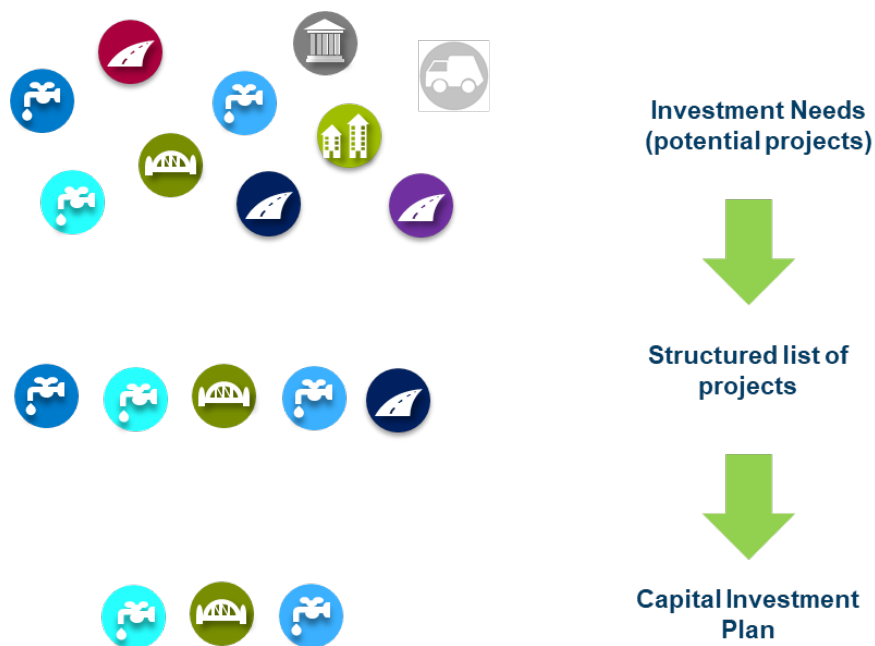
At this stage of project preparation, the overall project cost should be presented. Costs of feasibility studies, engineering and construction and costs of other preparatory works should be included in the capital costs for project proposals.

Main objectives of the project proposal are: assessment of the effectiveness of the project in comparison with other projects, preparation to budgeting as well as applying for external sources of financing.

Important information about each proposed project is its future influence on the municipal budget. After implementation of the investment there may occur an increase of operational maintenance costs of the newly built infrastructure. The aim of some projects is to reduce operating costs as a result of the planned modernization or replacement of infrastructure. Planned savings or additional revenues should also be taken into account when making decisions about approving the project.

### 3.3. Appraisal and ranking of project proposals (step 6)

The process of appraisal and ranking of projects should lead as from a number of investment needs (potential project) through structured list of projects till Capital Investment Plan containing the selected investments.



There are a few methods of comparing Projects Proposals in order to select the best investments and prepare a ranking.

In this section we describe the following:

- Multi-criteria analysis
- Cost – benefit analysis



- Cost-Effectiveness Analysis.

### Multi-criteria analysis

In this method the project proposals are prioritized according to the specific criteria. It is up to each municipality to determine the set of criteria and assign weights to each of them. The set of criteria should be tailored locally, but it should be as precise as possible, in order to ensure the transparency of the process. Transparency requires also the criteria and the assessment of individual projects to be public.



The example of calculation of the overall score for two projects is presented in the table. Two projects are scored in 3 criteria among which the impact on poverty has the highest importance. Importance is measured using the statistic term - weight. It should reflect the priority among different criteria, for example for one municipality there will be important to select projects which result with high social effect, and for another municipality more important are environmental issues. Importance may be expressed in percent or in numbers (more important criterion higher number). For each project scores are multiplied by weights<sup>3</sup> to reach the total impact.

Criteria	Score	Weight*	Impact Number of points
<b>Project A</b>			
Impact on poverty	2	60%	1.2
Impact on business investment	1	20%	0.2
Impact on environmental quality	4	20%	0.8
<b>Weighted total impact</b>			<b>2.2</b>
<b>Project B</b>			
Impact on poverty	4	60%	2.4
Impact on business investment	1	20%	0.2
Impact on environmental quality	2	20%	0.4
<b>Weighted total impact</b>			<b>3.0</b>

\* The measure of importance. The values are examples. The procedure should include the rules of project evaluation together with the list of criteria and their importance for the particular municipality reflected as the weight.

Figure 8: Example Project Score Chart

As described at the preselection level also during this step the submitted projects have to be assessed and ranked. This would be mainly the task of the CIP team, but it may also be advisable to appoint external experts to help in the assessment of some more complicated or technical criteria.

<sup>3</sup> Importance

Multi-criteria analysis uses a set of various criteria and allocates scores (points) for individual criteria. The sum of scored points can be almost automatically translated into the ranking of assessed projects.

Possible model of criteria and scoring system is presented in appendix 3. It should not be treated as a model to follow without any changes, but rather as a material for further reflection and deliberation in the local environment.

Some of criteria are relatively easy to use almost mechanically, but others would always require an expert assessment which is to certain extent subjective (the assessment of compliance with strategic goals and expected benefits in terms of economic and social development). That is why the CIP team must include recognized experts, or in the assessment process it has to refer to the opinions of external experts. The costs of such experts should be also included in the costs of the project.

Some example criteria for evaluation of projects are presented in the below table. More examples are including in the appendix 3.

No	Criteria	Weight	Points and rules of evaluation
1.	Efficiency in solving the problem	30%	The project <u>fully</u> solves the problem – <b>3 points</b> The project <u>partially</u> solves the problem – <b>2 points</b> The project <u>temporarily</u> solves the problem – <b>1 point</b>
2.	Benefits form the project implementation	35%	Expected benefits are of social or economic type and they are addressed <u>for the hole municipality</u> – <b>3 points</b> Expected benefits are of social or economic type but they are not limited to <u>more than one village</u> – <b>2 points</b> Expected benefits are of social or economic type but they are limited to <u>the one village</u> – <b>1 point</b>
3.	Compliance with strategic goals	15%	The project contributes to achievement of relevant <u>strategic goals on the national and municipal level</u> – <b>3 points</b> The project contributes to achievement of relevant <u>strategic goals on the national level</u> – <b>2 points</b> The project contributes to achievement of relevant <u>strategic goals on the municipal level</u> – <b>1 point</b>
4.	Financial affordability	20%	The project can be financed from the grants in 50% and more – <b>3 points</b> The project can be financed from the grants in less than 50% but more than 20% – <b>2 points</b> The project can be financed from the grants in less than 20 % – <b>1 point</b>
-	-	100%	-

Figure 9: Example criteria for appraisal of projects

According to the above criteria the evaluation of two exemplified projects presented in the chapter 2.4. can be done as in the below table. There are presented scores together with the overall justification for every criterion.

	Efficiency in solving the problem	Benefits form the project implementation	Compliance with strategic goals	Financial affordability	TOTAL
<b>Project 1: Project Rehabilitation of Street</b>	The project fully solves the problem of comfortable walking on the street	Benefits of economic type for the hole municipality	Compliance with strategic goals on the municipal level	No financing from external sources	-
Number of points	3	3	1	0	-
Number of points including weight	$30\%*3=0,9$	$35\%*3=1,05$	$15\%*1=0,15$	$20\%*0=0,0$	<b>2,1</b>
<b>Project 2: The construction of a kindergarten</b>	The project fully solves the problem of the village	Benefits of social type for the one village in the municipality	Compliance with strategic goals on the national and municipal level	Possible co-financing from the State budget	-
Number of points	3	1	3	1	-
Number of points including weight	$30\%*3=0,9$	$35\%*1=0,35$	$15\%*3=0,45$	$20\%*1=0,2$	<b>1,9</b>

Figure 10: Example evaluation of project

The result of the above evaluation is that road project should be implemented before the kindergarten project. It got more point in total for all criteria. The results will be the opposite when the weights for criteria, which reflects municipal priorities, are changed. For example, if the municipality decreases the importance of the *benefits from the project* implementation to 15% and gives higher priority to *compliance with the strategy* (35%) the kindergarten will receive higher number of points than the road. The criteria and their weights<sup>4</sup> should be considered very carefully and should be a part of the CIP procedure.

The most advanced method for project appraisal is the cost-benefit analysis - described below. Note that some of the criteria included in appendix 3 are close to performance indicators used by the CBA and will automatically be incorporated by this analysis. If the CBA is carried out and for each project NPV is calculated, there is no point to use “time required for the project completion” or “impact on the budget in the future” as separate criteria, since both of them are part of NPV. In such case the number of criteria may be reduced, and

<sup>4</sup> It is also possible to give up weights and use only points. To differentiate criteria, one has to establish various scales for them, for example points from 6 to 1 for the benefits and from 3 to 1 for the external financing.

result of NPV or IRR calculation should be given a prominent role in the overall scoring system.

### Cost-benefit analysis

Economic cost-benefit analysis (CBA) is the default tool at the heart of the project appraisal methodology. The CBA consists of quantifying in monetary terms all the costs and benefits of a project to society and, by discounting, determining the net benefits (or costs) in terms of a present value. In other words economic cost-benefit analysis should consider all benefits and costs for society as a whole, no matter where they fall and should extend beyond the narrow perspective of the impact on the accounts of an individual operating entity (e.g. municipality). Benefits and costs should be relevant and material to the economic analysis.

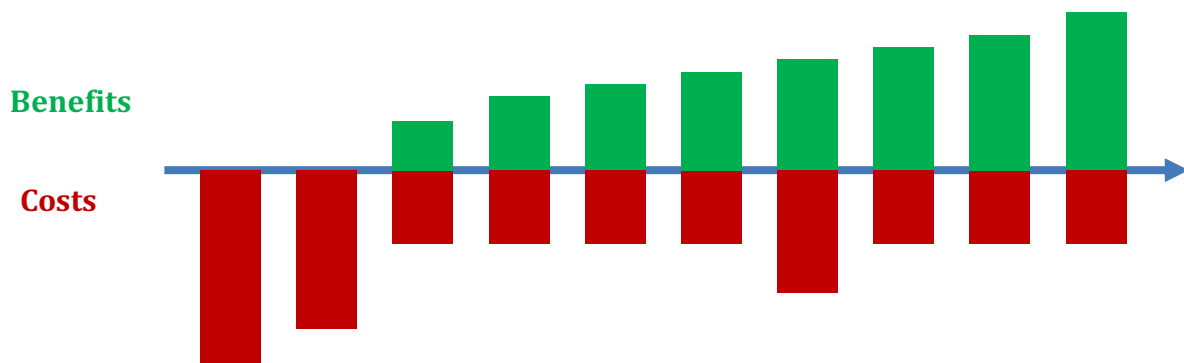


Figure 11: Costs and benefits in the example project

An **economic benefit** is any increase in the welfare of society or the individuals who make up society brought about by the proposed project. This means that any gains to government and to the non-government sector (private business, voluntary and community sectors) are included, as well as those to private individuals. Benefits from public action will mostly accrue to individuals.

The two most important principles in defining a relevant **economic cost** are that it should (i) involve the actual use of economic resources and (ii) reflect the cost of forgoing the alternative uses to which the resources could be put. An economic cost includes such inputs in the project, like publicly owned capital assets, like land, buildings, equipment and vehicles that will be employed in the project. That means that cost requires valuing inputs at their opportunity cost. Opportunity cost is the best price they could draw in alternative usage. In other words, they are potential opportunities lost as a result of making the decision (choosing the solution).

First step for cost – benefit analysis is the **financial analysis** which includes: all benefits and costs related to the **profitability** of project like, revenues from services, the so called ‘life-cycle’ costs for a capital project i.e. operating and maintenance costs, as well as costs of initial capital investment and, if necessary, replacement investments. Next step is identification of other costs and benefits which are contributing to the **efficiency** of the project. All of them must be quantified and calculate in monetary terms.

<p><i>Financial cost-benefit analysis</i> looks at the project from the perspective of the operating entity’s financial accounts and financial performance.</p>	<p><i>Economic cost-benefit analysis</i> looks at the project from the point of view of the citizens of municipality as a whole taking into account the socio-economic costs and benefits that are not reflected in an operating entity’s financial statements.</p>
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There is an important difference between purely financial analysis of the project and the economic one. The later takes into account not only financial flows for the investor (e.g. municipal budget) but also costs and benefits for other parties (so called **Externalities**) generated as a result of the project.

In order to calculate economic costs and benefits it is necessary to take into account the **Opportunity cost** (the value of a resource in its best alternative use). In addition, in economic terms it is crucial to evaluate the true economic cost of goods or services (**Resource Cost**) which sometimes differs from a financial ‘cost’. Financial cashflows may include a tax or customs duty, which is not a cost to the economy as a whole, but merely a transfer payment from one group of society to another.

The difference between the current amount of all benefits and all costs is called **Net Present Value** (NPV). A positive NPV indicates that the total project benefits outweigh total project costs after benefits and costs occurring in different years have been expressed on common basis using the discounting technique.

NPV is the core criterion for determining the economic viability of a project when all the material benefits and costs can be estimated.

The mathematical equation for NPV is:

$$NPV = \sum_{t=0}^t \frac{(B_t - C_t)}{(1 + d)^t}$$

Where:        B = benefit (or cash inflow)  
                  C = cost (or cash outflow)  
                  B-C = net benefit (or net cash flow)  
                  t = time in years and, d = discount rate

*For more please read: "Methodological manual for project pre-selection, appraisal, and selection and budgeting of public investment in Georgia"*

Other measures of economic viability can be calculated, but these should generally be viewed as secondary and complementary to NPV.

The economic internal rate of return (EIRR) is the discount rate that would give an NPV of zero given the cash flow forecasts for the project (rate, which equalizes the sum of the discounted costs and the sum of the discounted benefits). Generally speaking, if the EIRR is above the official discount rate the project is economically viable (NPV should be positive).

The benefit-cost ratio (BCR) is another way of expressing the balance between the present value of benefits and the present value of costs. In general, BCR should be greater than 1 for economically efficient projects.

$$BCR = \frac{\text{sum of present values of benefits (cash inflows)}}{\text{sum of present values of costs (cash outflows)}}$$



A project is economically justifiable if:

- NPV is positive (greater than zero)
- EIRR is greater than the discount rate
- BCR ratio that is greater than one

**As the cost-benefit analysis is the most advanced tool for project appraisal and requires specific experience and competences, it is carried out by professionals and usually outsourced by municipalities.**

### **Cost-benefit analysis in municipal development projects**

For municipal development projects the most difficult part is defining benefits. In order to do it the municipality should answer the following main questions first:

- What are the benefits for direct users of the infrastructure? (especially in reference to identified problems)
- Are there any costs for users (external costs which burden direct users of the infrastructure as a result of the project)?
- What are external benefits and/or negative effects (inconveniences) for other - non-users of the infrastructure?
- How do the project benefits exceed the benefits from project alternatives?
- What are typical benefits in this particular sector (transportation, water supply, environmental, social sector, etc.)?
- What are other benefits and costs including intangible benefits? e.g. How the investment may support positive or negative effects in other sectors?

NPV is the core criterion for determining the economic viability of a municipal project when all material benefits and costs can be valued. Generally, the project (or option) with the highest NPV should be selected for implementation. For many public sector projects however, it may not be the preferred alternative if other alternatives have significant intangible benefits that cannot be valued.

#### **Example:**

#### **Construction of the viaduct over the railway line**

Users (e.g. drivers and pedestrians):

- **Improved safety** - reducing the number of accidents involving pedestrians crossing closed boom barriers
- **Time savings for drivers** – average waiting time per hour before the boom barriers during rush hours is approx. 23 minutes.

Non-users:

- **Reducing environmental pollution and greenhouse gas emissions, as well as noise reduction**
- **Increasing the city's attractiveness for business** – increasing the number of areas in the city potentially attractive for investment, increasing of efficiency in local businesses.
- **Increasing the city's attractiveness for tourists** - the efficiency of travelling in its area is one of the key aspects that influence the perception of the city by potential visitors.

Other, not tangible benefits: improved travel comfort; increased residents' satisfaction; increased life comfort.

From identified benefits one should select those which can be valued in money for the purposes of CBA. More detailed analysis should be done taking into consideration possible sources of data related to external benefits and costs.

Below examples of usual externalities for transportation projects (based on the *BlueBook Road Infrastructure; Jaspers; 2015*) have been presented:

- **Vehicle operating costs:** fuel costs, other costs like oil, tires, vehicle maintenance as well as its depreciation;
- **Road infrastructure user time costs:** business travelers, daily travelers home-work-home (commuting), travelers with other motivations (e.g. tourism, shopping, etc.);
- **Costs of accidents:** costs of fatalities in road accidents, costs of injured in road accidents, costs of seriously injured in road accidents, and material damage costs (incurred in accidents involving injuries and/or fatalities);
- **Air pollution costs:** mainly, negative influence on human health (cardiovascular and respiratory diseases caused by air pollutants), material losses (building and material damages), environmental damages (impacts on biodiversity and ecosystems);
- **Climate change impact:** impact of greenhouse gas (GHG) emissions, expressed as CO<sub>2</sub> equivalent (economic unit costs of greenhouse gas emission, i.e. of CO<sub>2</sub> equivalent, depends on fuel consumption, and therefore on the speed, on the vehicle category as well as on the pavement condition and geometry of the road);



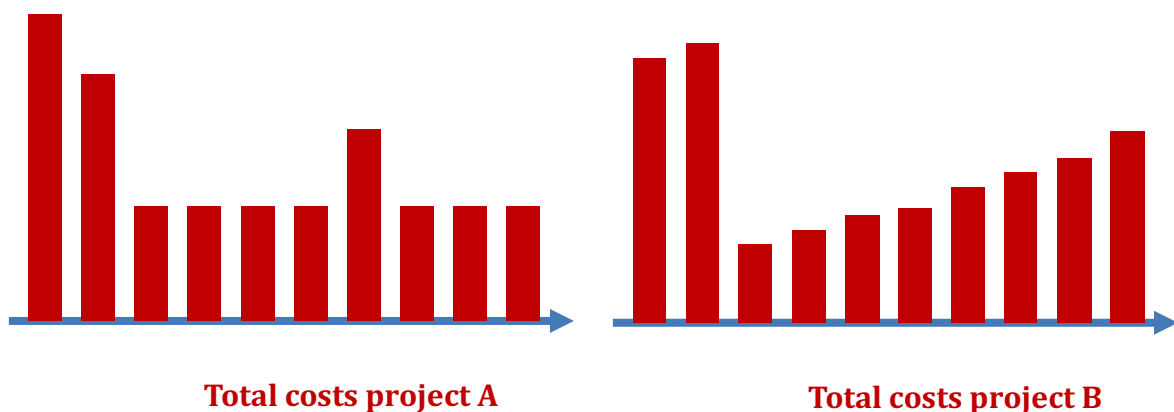
- **Noise costs** (costs or benefits related to the increase or decrease of noise as a result of the project): noise impact costs of unwanted sound or sounds of duration, intensity or other quality that causes physical or psychological harm to humans.

### The Cost-Effectiveness Analysis



The Cost-effectiveness analysis is similar to cost-benefit analysis but it does not involve placing money values on the major benefits of a project. Instead, benefits are expressed in physical units rather than in monetary terms. The Cost-effectiveness analysis compares the cost of alternative ways of producing the same or very similar outputs or outcomes. The results can be expressed as a cost (GELs) per unit output/outcome. Just as for cost-benefit analysis, costs over the life-cycle of a project are discounted to arrive at present values and a net present cost for the project<sup>5</sup>.

Figure 12: Example life cycle costs of the project - option analysis



Calculation of unit cost is done based on the following formula:

$$DGC = \frac{\sum_{t=0}^T \frac{LCC_t}{(1+d)^t}}{\sum_{t=0}^T \frac{O_t}{(1+d)^t}}$$

$LCC_t$  is the life cycle costs of the project at time  $t$

$O_t$  is the output / result of the project in at time  $t$

$d$  is the discount rate (recommended 5% by the European Commission Guide for Member States and regions of the European Union)

<sup>5</sup> According to the METHODOLOGICAL MANUAL FOR PROJECT PRE-SELECTION, APPRAISAL, AND SELECTION AND BUDGETING OF PUBLIC INVESTMENT IN GEORGIA: "In line with the PIM Guidelines, a common discount rate should be used for all economic entities in the economic analysis of investment projects in all government sectors (central and local) to facilitate the consistent comparison of projects within and between portfolios. For the time being, all ministries and departments in the government sector should use a discount rate of 5.0% real in line with the European Commission guidance with appropriate sensitivity testing on either side of this rate, e.g. 4.0% and 6.0%".

In that way it is possible to calculate how much it costs to treat 1 m3 of waste water or to take care of one child in a kindergarten per year.

This method however cannot be used to compare projects of different sectors (e.g. water with roads, culture with education). Therefore, cost-effectiveness is valuable especially in comparing different options within one project or in sectoral approach.

The process of Project Proposal preparation and its evaluation is presented on the below scheme.

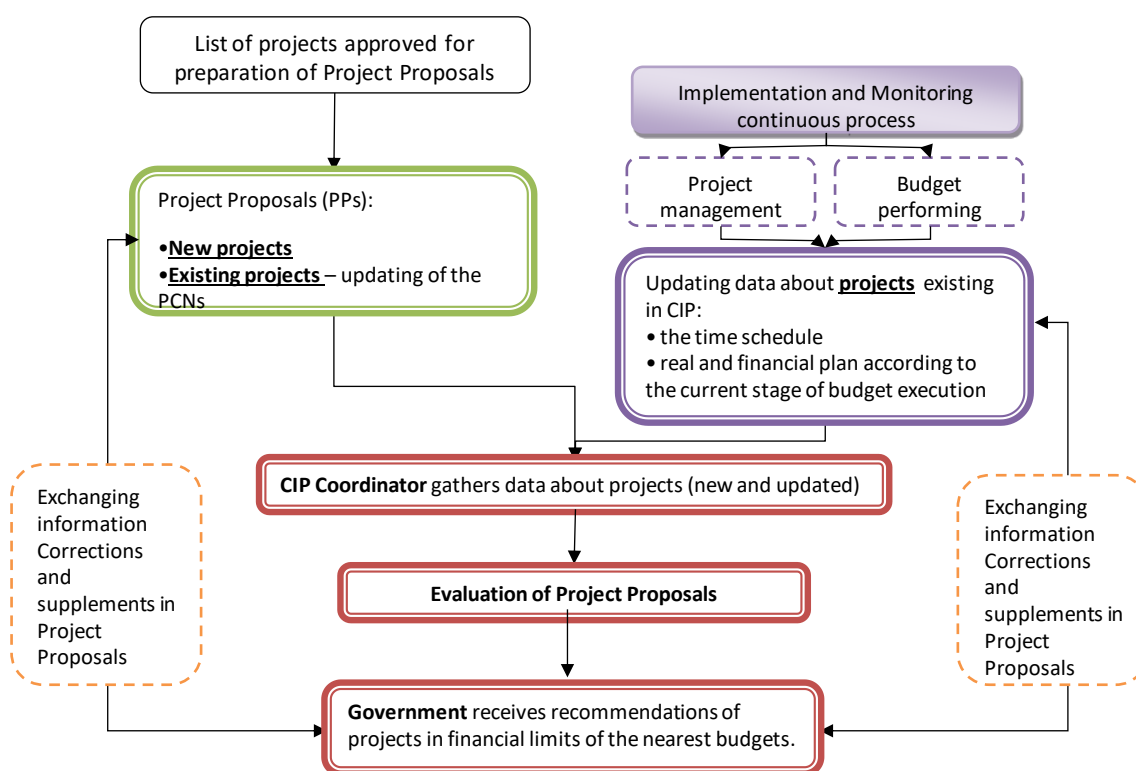


Figure 13: Project Proposal Preparation Schema

## Case Study: Role of pre-feasibility study based on waste water treatment plant in Kaspi

City of Kaspi is located in Shida Kartli region. From East to West municipality is crossed by main road (Autobahn) and railway line, with 4 railway stations. The city has extensive water and sewage network that is divided by Lekhura river. In the past there was a mechanical WWTP built in 1978. The plant was located in south-east part of the city close to Mtkvari River. There was a plan to extend the Plant and build a biological part in 2000 but because of difficult overall economic situation (a collapse of the economy) this plan was not implemented. As a consequence, the whole WWTP stopped operating. At the moment sewage is directed to the river. The intention of the Municipality is to build two plants:



Photo 1: Remains of the old sewage treatment plant

- One in the old site (WWTP1) and
- the other one (WWTP2) in the south-west part of the city close to river Mtkvari.

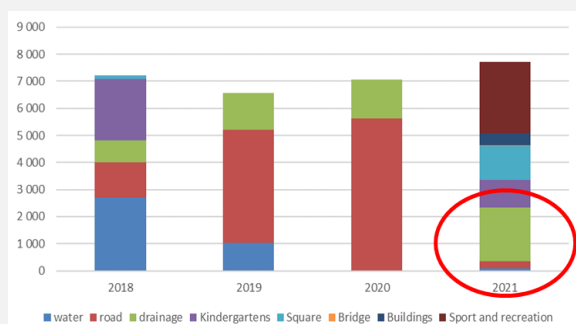


Figure 14: Capital expenditure in Kaspi CIP (main categories in thousands GEL)

Project: Construction of Kaspi sewage systems treatment facilities at the site of the former premise

In both sites the land belongs to the Municipality and it seems that plots are big enough to locate WWTPs. In the neighbouring areas there are no buildings in use at the moment. Both sites are well located: away from residential districts, by the river and not far from the industrial zone and the largest sewage producers. There is about 3.5 km between sites and the WWTP2 is

higher than WWTP1 (509 vs 518.24 - 9 m of difference). It seemed that there is an easy possibility to direct all sewage to one site only

(WWTP1) but a connection in the network is necessary. The main questions at this stage were:

- What is the required capacity of the plant (plants)?
- What is the cost estimate?
- Should the municipality build one WWTP for the whole city or two WWTPs for each part of the city.

Based on data from the local office of United Water Company and a number of assumptions a pre-feasibility study showed that the volume of waste water transported to the plant may reach 1.7 m. m<sup>3</sup>/year. The capacity of the plant was estimated at 2.1 m. m<sup>3</sup>/year. The City has secured some money in the Action Plan for 2021 (see the figure). However, analysis showed that this amount is not enough to cover capital expenditure. The approximate cost estimate based on benchmarking method shows that the cost may reach to 8-10 m. GEL. This is the sign for the city that a change in the Action Plan is necessary or more external financing has to be organised. In addition, the financial projection has shown that the total life cycle costs are lower if there is only one WWPT instead of two plants. The unit cost of treating 1 m<sup>3</sup> of sewage is 0.96 GEL compared to approx. 1 GEL in option 2.

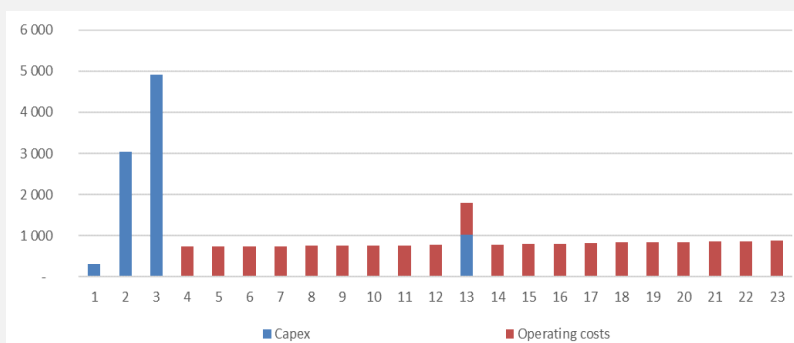
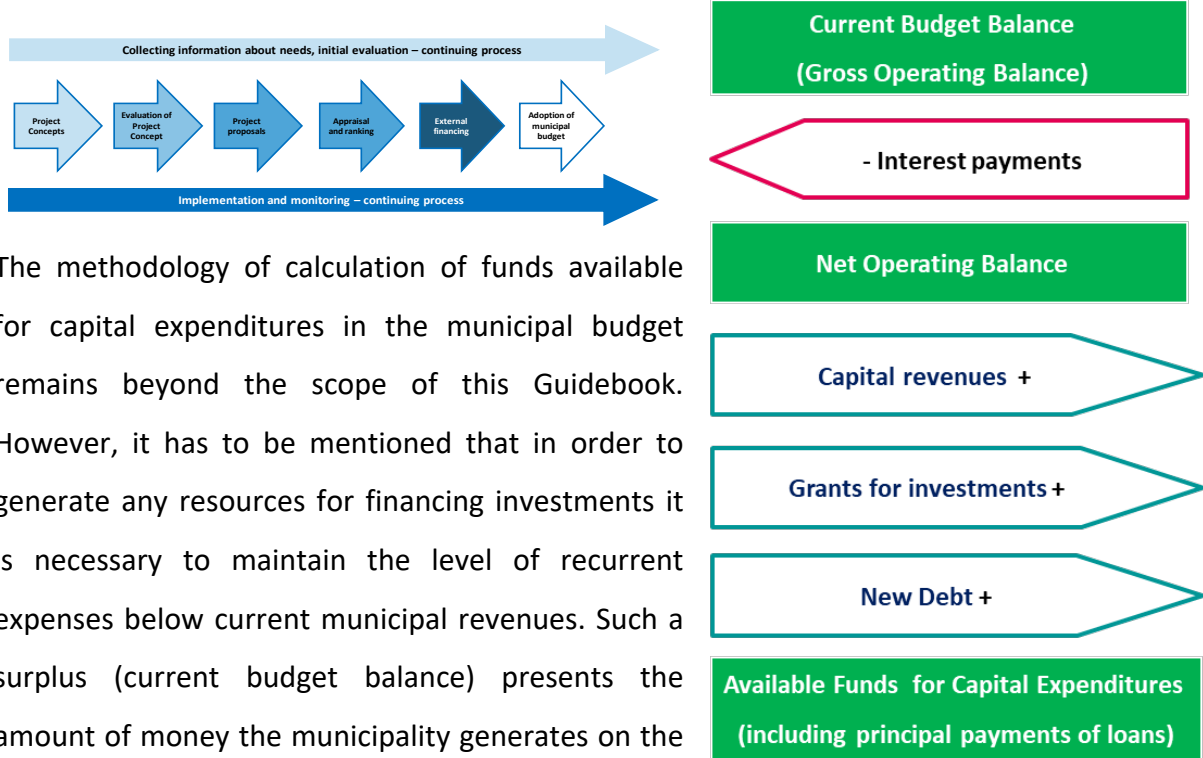


Figure 15: Life cycle cost of option 1 (building only 1 WWTP) in thousands GEL

## 4. Project selection and budgeting

### 4.1. Draft CIP

#### Fund available for investment projects



The methodology of calculation of funds available for capital expenditures in the municipal budget remains beyond the scope of this Guidebook. However, it has to be mentioned that in order to generate any resources for financing investments it is necessary to maintain the level of recurrent expenses below current municipal revenues. Such a surplus (current budget balance) presents the amount of money the municipality generates on the

operational activity. The surplus plus capital revenues (mainly revenues from sale of municipal assets) gives the fund pool called Gross Operating Balance. Out of it the municipality has to serve its debt and the remaining amount is referred to as Net Operating Balance. To enlarge its capacity to implement investment the local government may apply for ear-marked grants for investments or attract new loans.

The Gross Operating Balance represents this portion of the budget, which can be used to finance investments with the municipality's own funds and to repay the existing loan debt (interest plus principal). The size of the Gross Operating Balance and its share in the municipal revenue determine the municipality's financial standing. The larger the Balance is and the higher its share in the municipal revenues is, the better financial condition the municipality has.

In addition, there are certain funds dedicated for capital investments from external sources (so-called capital transfers). Usually these are grants, more seldom repayable instruments (loans)<sup>6</sup>. It has to be stressed that in many Georgian Municipalities grant dependency is a critical feature. The main role plays here Regional Development Fund (RDF), which has co-financed majority of municipal projects in recent years, but also High Mountain Found (HMF) in some municipalities. Therefore, the authors of the Guidebook are aware that Draft CIP (what we want to do!) may differ much from Revised CIP (what we can afford and get co-financing for!). Revised CIP should take into consideration financing possibilities.

Of course, there are certain funds dedicated for capital investments from external sources (capital transfers). Usually these are grants, more seldom repayable instruments (loans). It has to be stressed that in many Georgian Municipalities *grant dependency* is a critical feature. Therefore, the authors of the Guidebook are aware that Draft CIP (what we want to do!) may differ much from Final CIP (what we can afford!) that take into consideration financing possibilities.

#### **How much money should be spent on investments?**

There is no one good answer to this question. In each municipality the level of capital investments has to be tailored to needs and possibilities of municipal budget. In most cases the municipal managers intend to invest as much as possible to fulfil local community's needs and improve the state of communal assets.

In addition, the level of capital expenditures is determined by the Local Government Code, which represents the Organic Law of Georgia. The law defines the minimal increase in non-financial assets (Article 155) and states that "The percentage of the total volume of growth of non-financial assets in the total amount of the budgetary payables of the municipality planned for the same budgetary year shall not be less than the analogous annual average indicator of the 3 years preceding the planning year. In that case, the financial resources received/to be received by the municipality within a year in the form of targeted, special and capital transfers shall not be taken into consideration."

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<sup>6</sup> Utilisation of debt is not a subject of this Guidebook as most of Georgian municipalities have no or limited access to financial markets.

## Building ranking of projects and initial allocation of funds available

The question that has to be answered in each municipality is whether it is better to (i) create one pool of funds for all investments (and compare all types of projects in one selection



process) or (ii) divide available fund to a few programmes (e.g. for roads, water, social infrastructure) and then within limits set for each programme select the best investments.

Options to be considered: one pool of funds for all investments or separate programmes (and budgets) for different sectors.

Both solutions have their pros and cons. In the first approach municipal authorities are more flexible in reallocating resources from one sector to another. On the other hand, different types of projects compete for funds and it is always difficult to compare projects in

such situation. In the second approach the municipality may introduce scoring systems that will be tailored to each sector. Assigning a certain amount of money to each sector / programme it guarantees in addition that none sector will be neglected at the end of the day.

The first model is disused based on the example in appendix 7. We have presented the steps necessary to compare a defined limit of resources with a ranking of projects resulting from projects evaluation. In the first (draft) version of Capital Investment Plan it is recommended that all projects reaching highest score of points should be included regardless their chances to attract external funding. However, one should remember that there often are factors which are not reflected in the scoring system but are taken into account by politicians.

**The main objective of the evaluation of projects according to the score system is to support the decision makers. The total number of points gained in the scoring process should not be the only basis for the final recommendation and decision, which is finally made by the Government and Municipal Council.**



### 4.2. Applying for external financing and budgeting (step 7)

In the draft CIP the municipality should include projects which have been given highest scores and what may contribute to the development of municipality.

In the Georgian environment one more complication is related to the fact that quite often a large proportion of investments is not financed from own funds or current receipts but from external sources, mainly grants received from RDF and HMF. These specific grants are divided in various programmes (such as grants for housing investments, investments in environment protection etc.) and are subject of specific conditions. Therefore, it may happen that our own ranking of possible projects will not match the available sources of external funding. As a consequence, we cannot treat our own ranking of projects as the sole base for the capital investment plan. Instead of simply taking “first N projects in the ranking” we need to compare our ranking with the criteria for allocation of grants from different government (or other) programmes. For every project in the ranking we should specify which external programme criteria it follows, and for every programme (for example water grants) we will be looking for eligible projects which occupy the highest place in our ranking. Obviously, the aim of municipality is to utilize available external financing. LGUs sometimes can obtain loans from specialized donor-funded entities, such as MDF or World Bank. These entities may be designed to support specific types of projects. As a result, this funding may not be available for all projects in a draft CIP or even for its high-priority projects. Nevertheless, it can be an important source of funding for LGs. However, attracting external financing should not be the aim itself. At the end of a day it is important to implement project that best reflect priorities of the municipality.

Projects for which municipality will apply for external financing will require much more careful and detailed preparation (“packaging”) for presentation to potential sponsors than is typically needed for financing through the municipal own sources. The implication is that after such a project is included in the CIP, the project will need to undergo the second, in-depth appraisal and additional documents may be required (e.g. feasibility study, application for grant etc.).

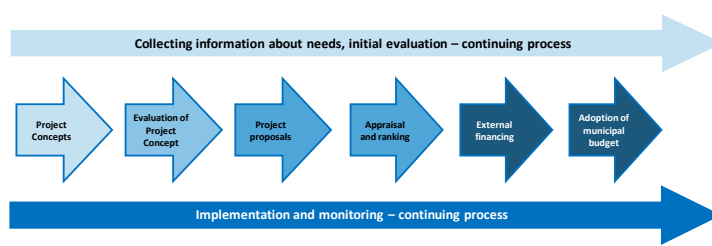
**Searching for financing possibilities and applying for external sources is an important part of the modern self-government activities. It is recommended that in each municipality a person (or a small unit) properly trained and skilled should be exclusively responsible for this job.**



### 4.3. Revised CIP

Having done budgeting of projects the Capital Investment Plan should provide us with a list of proposed projects with sources of financing covering all costs. Total contribution of municipal budget should not exceed the limit set by Financial Department. Revised CIP may differ from the draft one as some projects do.

### 4.4. Adoption of municipal budget and approved CIP (step 8)



The CIP prepared through the steps described above is still a draft or recommendation which has to be approved by the statutory bodies of the local government – first

government and then respective municipal council. The Budget is always a political document, and these bodies having democratic legitimacy stemming from the election have the right to introduce any changes in recommendations submitted by the CIP team. However, the more transparent the process of preparation and the better the justification of the choices are, the less likely (or the more politically difficult) is introduction of changes which are not grounded in sound analysis of potential benefits for the community. For any politician it is more difficult to introduce a new project to the programme, if existing draft is well argued and based on clear, accepted criteria.

The Capital Investment Plan is a binding document once it is approved by the council what should take place together with the municipal budget.



## 5. Updating of the capital investment plan

Once the Capital Investment Plan is approved there is a need to update it and prepare a new version of the plan next year. The graph presents the idea of such an update.

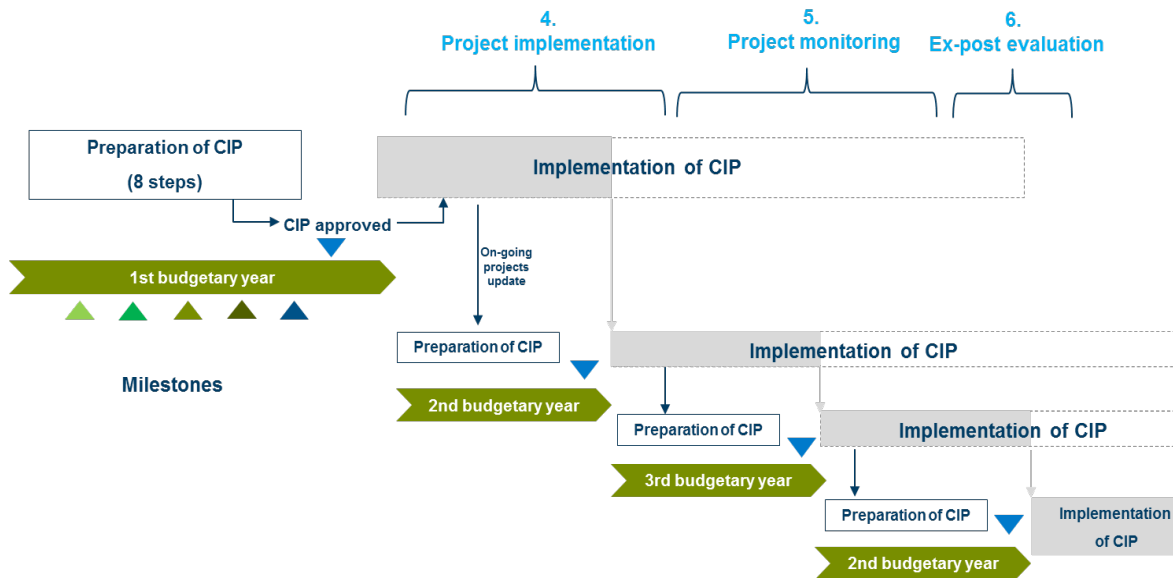


Figure 16: Capital Investment Plan Update Schema

The approval of the CIP at the end of the first year is at the same time the moment when the municipality starts preparation of a new edition of the CIP. As this is a stepping plan the horizon of CIP moves on year by year. The whole process of the project screening and pre-selection, project appraisal, selection and budgeting take place again. The formal procedure of preparation of capital investment plans should already exist in LGU. However, the staff chosen to lead this procedure should be able to implement necessary changes in the way how investment projects are selected and approved for implementation.

At the same time the first edition of the CIP is under implementation. It means that during the second-year municipal administration deals with two editions of the Plan – if necessary, updates the existing one (for instance correcting figures about particular projects), and prepares a new one. When a new version of the CIP is approved the old one is no longer in force.

The CIP process is a complex set of activities that requires almost 12 months of engagement. Therefore, it is necessary to maintain the initial enthusiasm and strong political support to

follow the whole procedure. Visible results will occur after a few years of consequent implementation.

## 6. Conclusions

There is a number of benefits from implementation of the CIP as presented in this Guidebook. Among many of them the following should be underlined:

- **Better fulfilment of community needs.** Better prepared projects (better selection, good quality of documentation, projects relevant to needs) means better fulfilment of community needs
- **CIP helps in applying for external sources.** Projects prepared according to international standards may be presented to co-financing by international donors
- **Promotion of municipal among residents.** The CIP as a document presents a vision and intentions of authorities to develop municipality therefore can be treated as means of promotion as well.
- **Presentation of municipality to private investors.** Business entities may understand the vision of municipality development, know the investment priorities of municipal authorities
- **The CIP is a tool to implement the strategy of development** (and its priorities). No strategy may be implemented without appropriate funds. Assigning funds for capital investments that support strategy guarantees that the municipality treats the priorities seriously.

# Capital Investment Planning Appendixes



## Appendix 1: Template for Project Concept Note



Scope of information	Level 1 Project Concept	Level 2 Project Concept	Level 3 Project Concept
<b>A. Administrative Information</b>			
1. Project name			
2. Economic Entity submitting the project			
3. Senior official responsible for the project within Economic Entity			
4. Subordinated entity responsible for the project and its implementation (if different from the Economic Entity)			
5. Responsible official in subordinated entity (if applicable)			
6. Project is new or on - going	Please indicate if the project is new or on-going	Please indicate if the project is new or on-going	Please indicate if the project is new or on-going
<b>B. Projection Rationale and Assessment of Need</b>			
7. Describe the specific problem that the project is intended to address and its severity.	<p><b>Where</b> is the problematic situation located (district, street, area, building, etc.)?</p> <p><b>Who</b> is directly affected by the problem (what group of people, citizens, etc.)?</p> <p><b>How long</b> does the problem exist?</p> <p>What are the <b>results and severities</b>?</p>	<p>Indicate what causes the severities (higher demand for the services -more users in relation to the capacity of facilities, demand for new services, technical condition of the infrastructure, others)?</p>	<p>Indicate what causes the severities (higher demand for the services -more users in relation to the capacity of facilities, demand for new services, technical condition of the infrastructure, others)?</p>
8. Explain how the project will alleviate this problem.	<p>What we propose to do to solve the problem?</p> <p>Why we propose the described solution (how the solution is going to help in reducing of identified severities)?</p>	<p><u>Additionally, to the previous level:</u></p> <p>Information about the possible <b>alternative solutions</b> that may solve the problem.</p> <p>Recommendation of the alternative which should be analysed in more detailed.</p>	<p><u>The same information about the previous level:</u></p> <p>Information about the possible <b>alternative solutions</b> that may solve the problem.</p> <p>Recommendation of the alternative which should be analysed in more detailed.</p>
9. Identify the specific target group intended to benefit from the project.	<p>Who will directly benefit from the project (what group of residents)?</p>	<p>Additional information about other beneficiaries (e.g. number of residents) including indirect beneficiaries.</p>	<p>Additional information about other beneficiaries (e.g. number of residents) including indirect beneficiaries.</p>
10. Indicate approximately how many end-users there will be for the services provided by the project. Specify the			<p>Additional to information in previous point:</p> <p>Calculate the possible</p>

Scope of information	Level 1 Project Concept	Level 2 Project Concept	Level 3 Project Concept
unit of measurement (e.g., individuals, households, businesses).			number of users of the infrastructure (in division into existing users and new users) or predicted number of services which will be delivered, etc
11. Consequences of rejecting the project	What will be costs if we reject the project implementation (e.g. costs of necessary repairs)?  This information may be given in a <b>descriptive way</b> .	What will be costs if we reject the project implementation (e.g. costs of necessary repairs)?  This information may be given in a <b>descriptive way</b> .	What will be the costs if we reject the project implementation (e.g. costs of necessary repairs)?  This information should be given in a <b>quantitive way</b> .
12. Scope of work	Describe the predicted scope of work in the project (activities planned to be done).	Describe the predicted scope of work in the project including if necessary:  <ol style="list-style-type: none"> <li>1. Project preparation (conceptual design, construction design, additional analysis and studies if necessary, like geological expertise)</li> <li>2. Acquisition of land (if necessary)</li> <li>3. Construction works</li> <li>4. Purchase of equipment</li> </ol>	<u>Additionally, to the previous level:</u>  Specify the approximate physical capacity of the proposed facilities, indicating the unit(s) of measurement e.g., cubic meters of water per day, vehicles per day, clients per day, square meters of useable space, etc.).
13. Connections with other investments	<b>Indicate</b> connections with other investments planned or would be necessary to be implemented.  Point the connections with the spatial plans if applicable.	<b>Indicate</b> connections with other investments planned or would be necessary to be implemented.  Point the connections with the spatial plans if applicable.	<b>Indicate</b> connections with other investments planned or would be necessary to be implemented.  Point the connections with the spatial plans if applicable.
<b>C. Benefits from the project implementation</b>			
14. Benefits from the project implementation of different types: <ul style="list-style-type: none"> <li>- <b>social</b> (health, quality of life, poverty, safety, etc.)</li> <li>- <b>economical</b> (labour market, economic development, property market, tourism, etc.)</li> <li>- <b>cultural heritage</b></li> </ul>	<b>Identify main benefits</b> of the project implementation.	<b>Identify benefits and costs</b> for direct users and other benefits and costs related to the project, <b>including intangible</b> benefits and costs.	<u>Additionally, to the previous level:</u>  Identify the important <b>positive and negative project impacts</b> that will be difficult to value.
15. Environmental impacts <ul style="list-style-type: none"> <li>- air emissions,</li> <li>- energy use,</li> <li>- water use,</li> <li>- wastes, etc.</li> </ul>	<b>Identify main environmental impacts</b> of the project implementation.	<b>Identify main environmental impacts</b> of the project implementation.	<b>Describe main environmental impacts</b> of the project implementation.

Scope of information	Level 1 Project Concept	Level 2 Project Concept	Level 3 Project Concept
<b>D. Compliance of the Project with the Strategic goals</b>			
16. Describe how the project contribute to the strategic goals' implementation	<b>Indicate</b> relevant strategic goals and operational programs, if the project contributes to its implementation.	<b>Indicate</b> relevant strategic goals and operational programs, if the project contributes to its implementation.	<b>Describe</b> how the project contributes to the relevant strategic goals and/or operational programs implementation.
17. Is the project in compliance with the program budgets for the next years	<b>Indicate</b> relevant program in the budget	<b>Indicate</b> relevant program in the budget	<b>Indicate</b> relevant program in the budget
<b>E. Affordability</b>			
18. Budgetary impact	<b>Indicate</b> if the project is expected to bring reliefs or additional burdens to the budget.	<b>Describe</b> the projected budgetary impact of the project during operation phase (predicted budget burdens/profits and/or reliefs) for example: - Costs related to the maintenance of new infrastructure (which is new in the budget) - Potential revenues - fees related to the services - Potential costs of subsidizing of municipal companies if they are responsible for the maintenance of infrastructure	<b>Describe and estimate</b> the projected budgetary impact of the project during operation phase (predicted budget burdens/profits and/or reliefs) for example: - Costs related to the maintenance of new infrastructure (which is new in the budget) - Potential revenues - fees related to the services - Potential costs of subsidizing of municipal companies if they are responsible for the maintenance of infrastructure
19. Additional, external, sources of financing of the project	<b>Identify</b> any other potential sources of funding apart from the budget and their expected contributions.	<u>Additionally, to the previous level:</u> <b>Describe any further actions</b> or decisions that will be required to secure additional funding and explain the expected timeframe.	<u>Additionally, to the previous level:</u> <b>Asses what is the probability</b> of obtaining the assumed sources of financing according to the below categories: <b>Assumption</b> – we know there is a possibility to apply for funds provided that we fulfil certain requirements <b>Application</b> – the application was made and is under the evaluation <b>Promise</b> –funds are granted for the project <b>Agreement</b> – the funds are guaranteed by the bilateral agreement.
<b>F. Sustainability Issues</b>			

Scope of information	Level 1 Project Concept	Level 2 Project Concept	Level 3 Project Concept
20. Operation and maintenance		<b>Specify</b> the organization which will own and operate the assets and facilities created / renovated by the project.	<b>Specify</b> the organization which will own and operate the assets and facilities created / renovated by the project.
21. Additional consultations required			
<b>G. Project costs</b>			
22. Costs of project implementation	Provide <b>estimation of the total cost</b> of the project in current prices.  Give the basis for these cost estimates.	Provide <b>estimation of the total cost</b> of the project in current prices in the following division:  1. Project preparation (conceptual design, construction design, additional analysis and studies  2. Acquisition of land (if necessary)  3. Construction works  4. Purchase of equipment  Give the basis for these cost estimates.	Provide <b>real and financial schedule</b> (according to the below table - table 1).



**Table 1: Real and financial schedule**

Year	Real scope of the Project according to years Description	Total amount
Before 1st year		
1st year		
2nd year		
3rd year		
4th year		
After 4 <sup>th</sup> year		
Total costs		



## Appendix 2: Template for Project Proposal

Scope of information	Project Proposal
<b>H. Administrative Information</b>	
1. Project name	
2. Economic Entity submitting the project	
3. Senior official responsible for the project within the Economic Entity	
4. Subordinated entity responsible for project and its implementation (if different from the Economic Entity)	
5. Responsible official in subordinated entity (if applicable)	
6. Project is new or on - going	Please indicate if the project is new or on-going
<b>I. Projection Rationale and Assessment of Need</b>	
7. Describe the specific problem that the project is intended to address and its severity.	<p><b>Where</b> is the problematic situation located (district, street, area, building, etc.)?</p> <p><b>Who</b> is directly affected by the problem (what group of people, citizens, etc.)?</p> <p><b>How long</b> does the problem exist?</p> <p>What are the <b>results and severities</b>?</p> <p>Indicate what causes the severities (higher demand for the services -more users in relation to the capacity of facilities, demand for new services, technical condition of the infrastructure, others)?</p> <p>Additional description including the analysis of causes and effects of the problem.</p>
8. Explain how the project will alleviate this problem.	<p>What we propose to solve the problem?</p> <p>Why we propose the described solution (how the solution is going to help in reducing identified severities)? Additional description including analysis of goals in terms of the proposed activities.</p> <p>Information about the possible <b>alternative solutions</b> that may solve the problem with data and information about recommended alternative way of solving the problem and assessment of possible costs.</p> <p>Recommendation of the alternative which should be analysed in more details.</p>
9. Identify the specific target group intended to benefit from the project.	Analysis of beneficiaries, indication of specific benefits for every group of beneficiaries (who will directly benefit from the project, number of residents, entrepreneurs, including indirect beneficiaries).

Scope of information	Project Proposal
10. Indicate approximately how many end-users there will be for the services provided by the project. Specify the unit of measurement (e.g., individuals, households, businesses).	Demand analysis. Calculate the possible number of users of the infrastructure (in division into existing users and new users) or predicted number of services which will be delivered, etc.
11. Consequences of rejecting the project	What will be the costs if we reject the project implementation (e.g. costs of necessary repairs)? This information should be given in a <b>quantitative way</b> .
12. Scope of work	Conception of work with parameters describing the facilities planned to be implemented/renovated/built, if necessary conceptual design (if necessary additional studies, like geological expertise)  Specify the approximate physical capacity of the proposed facilities, indicating the unit(s) of measurement e.g., cubic meters of water per day, vehicles per day, clients per day, square meters of useable space, etc.).  Predicted scope of work in the project including if necessary:  <ol style="list-style-type: none"> <li>1. Project preparation (conceptual design, construction design, additional analysis and studies)</li> <li>2. Acquisition of land (if necessary)</li> <li>3. Construction works</li> <li>4. Purchase of equipment</li> </ol>
13. Connections with other investments	<b>Describe</b> connections with other investments planned to be implemented and recommended for implementation.
<b>J. Benefits from the project implementation</b>	
14. Benefits from the project implementation of different types: <ul style="list-style-type: none"> <li>- <b>social</b> (health, quality of life, poverty, safety, etc.)</li> <li>- <b>economical</b> (labour market, economic development, property market, tourism, etc.)</li> <li>- <b>cultural heritage</b></li> </ul>	<b>Identify benefits and costs</b> for direct users and other benefits and costs related to the project, <b>including intangible</b> benefits and costs.  Identify positive or negative consequence of the project experienced by unrelated third parties (for example air pollutions, health effects among residents, educational effect for the labour forces, etc.).
15. Environmental impacts <ul style="list-style-type: none"> <li>- air emissions,</li> <li>- energy use,</li> <li>- water use,</li> <li>- wastes, etc.</li> </ul>	<b>Describe environmental impacts</b> of the project implementation.
<b>K. Compliance of the Project with the Strategic goals</b>	
16. Describe how the project contributes to the strategic goals implementation	<b>Describe</b> how the project contributes to the relevant strategic goals and/or operational programs implementation.
17. Is the project in compliance with the program budgets for the coming years	<b>Indicate</b> relevant program in the budget.

Scope of information	Project Proposal
<b>L. Affordability</b>	
18. Budgetary impact	<p><b>Calculation of the project influence</b> on the municipal budget in operational phase (at least during 5 years from completing the implementation, according to the table below - table 1).</p> <p>Take into consideration:</p> <ul style="list-style-type: none"> <li>- Costs related to the maintenance of new infrastructure (which is new in the budget);</li> <li>- Potential revenues - fees related to the services;</li> <li>- Potential costs of subsidising of municipal companies if they are responsible for the maintenance of infrastructure.</li> </ul>
19. Additional, external, sources of financing of the project	<p><b>Detailed description of assumptions</b> related to the external sources of project financing including their contributions, degree of certainty and timeframes.</p> <p>Use the below categories:</p> <p><b>Assumption</b> – we know there is a possibility to apply for funds provided that we fulfil certain requirements</p> <p><b>Application</b> – the application was made and is under the evaluation</p> <p><b>Promise</b> –funds are granted for the project</p> <p><b>Agreement</b> – the funds are guaranteed by the bilateral agreement.</p>
<b>M. Sustainability Issues</b>	
20. Operation and maintenance	<p><b>Describe the operational phase</b> (who will be responsible for management and maintenance of assets and facilities created within the project).</p>
21. Additional consultations required	<p><b>Describe any formal or informal consultations</b> that will be required before an appraisal decision can be taken (for example opinion of inhabitants about the location of the landfill).</p>
<b>N. Project costs</b>	

Scope of information	Project Proposal
22. Costs of project implementation	<p>Provide <b>real and financial schedule</b> (according to the table below - table 2).</p> <p>Real scope should include the following parts:</p> <ol style="list-style-type: none"> <li>1. Project preparation (conceptual design, construction design, additional analysis and studies)</li> <li>2. Acquisition of land (if necessary)</li> <li>3. Construction works</li> <li>4. Purchase of equipment</li> </ol> <p>Give the basis for these cost estimates.</p> <p>Provide the <b>schedule of financing</b> of the project including different sources of financing (according to the below table - table 3);</p> <p>Provide an assessment of cost of the recommended <b>alternative solution</b>.</p>

**Table 1: Summary Budgetary Analysis**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year ....
<b>Budgetary Costs</b>						
Capital Costs						
Net Recurrent Costs* <ul style="list-style-type: none"> <li>• Operations</li> <li>• Maintenance</li> </ul>						
<b>Total Costs</b>						
Projected budgetary revenues (if any)						
<b>Net Budgetary Impact</b>						

\*Allowing for any cost savings related to the investment.

**Table 2: Real and financial schedule**

Year	Real scope of the Project according to years Description	Total amount
Before 1st year		
1st year		
2nd year		
3rd year		
4th year		
After 4 <sup>th</sup> year		
<b>Total costs</b>		

**Table 3: Schedule of financing**

Main phases of planning and implementation of the project	Year 1	Year 2	Year 3	Year 4	After the 4 <sup>th</sup> year	Total amount

<b>Main phases of planning and implementation of the project</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>After the 4<sup>th</sup> year</b>	<b>Total amount</b>
<b>Preparation phase of the Project</b>						
Donors financing passing through national budget						
Budgetary funding						
National private capital						
Other loans						
<b>Construction works / Real implementation of the Project</b>						
Donors financing passing through national budget						
Budgetary funding						
National private capital						
Other loans						
<b>Total Sources Expected Funding from All Sources of Finance</b>						

## Appendix 3. Project proposal assessment card (example)

Dimensions/Judgment Criteria	Basis for evaluation in the PP	Evaluation (yes/no)	Evaluation (according to the points)
<b>A. General review</b>			
1. The PP is complete, what means that all parts of the form are fulfilled	The whole PP	X	
2. The information provided in the PP is adequate to arrive at an <b>appraisal opinion</b>	The whole PP	X	
3. The project is an on - going project	6		6 points
<b>B. Project Rationale and Assessment of Needs</b>			
4. The project logic is consistent and leads to the conclusion that the proposed solution will <b>fully solve the problem</b> and meets the identified needs	7,8		3 points
5. The project logic is consistent and leads to the conclusion that the proposed solution will <b>partially solve the problem</b> and meets the identified needs	7,8		2 points
6. The project logic <b>needs to be proved in a more detailed way</b>	7,8		1 point
7. <u>Alternative solutions</u> which have been considered <b>do not solve the problem</b>	8,11		3 points
8. <u>Alternative solutions</u> which have been considered seem to be <b>more expensive and solve the problem temporary</b> or occasionally	8,11		2 points
9. <u>Alternative solutions</u> which have been considered <b>are not expensive but solve the problem temporarily</b> or occasionally	8,11		1 point
10. The project is connected to investments of national or regional importance	13		3 points
11. The project is connected to investments of municipal or local importance	13		2 points
<b>C. Benefits from the Project implementation and alternative solutions</b>			
12. The postulated project benefits are addressed to <b>the whole city</b>	9,14		3 points
13. The postulated project benefits are addressed to the <b>group</b> of villages/ district	9,14		2 points
14. The postulated project benefits are addressed to the <b>one</b> village/district	9,14		1 point
15. The benefits and positive impacts of the project, including environmental impacts, supposed to <b>exceed</b> identified costs and negative impacts of the project	14,15		3 points
16. The benefits and positive impacts of the project, including environmental impacts, supposed to be <b>relatively equal</b> to	14,15		2 points

Dimensions/Judgment Criteria	Basis for evaluation in the PP	Evaluation (yes/no)	Evaluation (according to the points)
identified costs and negative impacts of the project			
17. The benefits and positive impacts of the project, including environmental impacts, supposed to be <b>lower</b> than identified costs and negative impacts of the project	14,15		1 point
<b>D. Compliance of the Project with the Strategic goals</b>			
18. The project will contribute to the achievement of relevant strategic goals and objectives of the <b>national and municipal strategy</b> and the priorities for the next year	16,17		3 points
19. The project will contribute to the achievement of relevant strategic goals and objectives of the <b>national strategy</b> and the priorities for the next year	16,17		2 points
20. The project will contribute to the achievement of relevant strategic goals and objectives of the <b>municipal strategy</b> and the priorities for the next year	16,17		1 point
<b>E. Financial Affordability</b>			
21. There external sources of financing of the project are <b>fully secured</b> (promise, agreement, granting resolution)	19,22		3 points
22. There external sources of financing of the project <b>are not fully secured</b> (application, assumption)	19,22		1 point
23. The budgetary impact of the project is <b>positive</b> (the predicted revenues and savings exceed predicted additional maintenance costs)	18		3 points
24. The budgetary impact of the project is <b>neutral</b> (the predicted revenues and savings are equal to predicted additional maintenance costs)	18		1 point

## Appendix 4: A Template for Capital Investment Plan

*Note: Usually the Capital Investment Plan is an appendix to a municipal council resolution on adoption of this plan. Reference to the number of the relevant resolutions should be on a cover page.*

### 1. COVER LETTER

As the Capital investment Plan (CIP) is a formal document presenting projects that municipality intends to implement the Mayor should present the document to the community and other stakeholders in a form of the cover letter.

Usually it includes a reference to the future vision of the municipality and short justification of the Plan in context of priorities set by municipal authorities.

### 2. EXECUTIVE SUMMARY

This is a summary of data presented in the following sections. It is recommended that the summary should answer the questions:

- How was the CIP document reached?
- Who was involved in its preparation?
- Who was consulted?
- How were citizens involved in the process?
- What criteria were used to select the projects?
- Other procedural issues if applicable.

The summary should define how much money municipality intends to devote on capital investments in the horizon of the plan and (if applicable) how much funds are to be gained from external sources.

If the plan consists of a few projects only, it is possible to describe them briefly the projects (or the most important ones) and explain what needs of the community will be fulfilled thanks to the implementation of these undertakings.



Perfectly if planned expenditures correspond with strategic priorities of the municipality. The CIP should prove, based on financial data, that the municipality implements its strategy.

### **3. PRESENTATION OF AN INVESTMENT PLAN**

This is usually a tabular section. All project are presented in the table that consists the following information:

- The Project title,
- The Unit responsible for implementation,
- Tasks to be done under the project (e.g. preparation of documentation, construction works, purchase of equipment, etc.)
- Expenditures in GEL planed for particular years in CIP horizon,
- Sources of financing.

It is also possible to include in the table other information like:

- Advantages arising from implementation of the project,
- Beneficiaries (to whom the project is directed),
- Monitoring indicators.

Depending on the size of a municipality this section may be divided:

- According to programs (option 1).  
The programs are designed to reflect strategic priorities of development for the municipality. In one program there might be a few types of projects. For instance, in the program “Increasing of tourism attractiveness” the municipality may have investments related to road rehabilitation, creation of a tourist information center and others.
- According to sectors / budget classification (option 2)

In this case the investment projects are presented in sectors that are defined by law e.g. in budgetary classification. The layout of the table will therefore reflect the layout of the budget.

- According to stage of implementation or project status (option 3)

In this case investment projects are presented in two groups:

- On-going projects (already under implementation),
- New projects (to be included in the next municipal budget).

- According to other criteria (option 4)

For instance, in a bigger municipality one may divide all projects into “strategic investments” - a few major projects - and “other projects” consisting of many small improvements of local infrastructure.

It is recommended that the investment projects should be presented on a map / plan of the municipality.

#### **4. INVESTMENTS OF THIRD PARTIES**

If it is justified the CIP document may also include investment plans of other entities to give a broader picture of how the municipality will develop during next few years. It is possible to include other public investments (not implemented by the municipality) e.g. governmental ones and investments of municipal utilities.

#### **5. MONITORING THE CIP**

If it is a second or next edition of the CIP it should be described how the previous version was implemented and what major changes were introduced to the Plan compared to the last year version.

#### **Appendix: Investment projects cards**

The cards describe each project in details giving more info than presented in section 3. Usually the layout of a card is similar to the layout of an application form used in projects submission phase of CIP preparation.

## Appendix 5: The scope and methodological approach of feasibility study



Feasibility study is an analytical study prepared in the appraisal stage, combining technical, economic, financial, social and environmental assessments of a project proposal and carried out to reach conclusions on the overall feasibility and sustainability of a potential capital investment project.

In other words, it is an analytical tool which is used in the project planning process and presents how the project will work under certain assumptions. It is also a supporting decision tool: it examines the practicality of the project.

Methodological Manual indicates the following steps in order to reach feasibility study:

- Step 1: Define the project objectives and scope
- Step 2: Identify and choose the project alternatives for appraisal
- Step 3: Demonstrate the demand for the services of the project and alternatives
- Step 4: Prepare economic analysis
  - Step 4.1 Identify relevant benefits and costs
  - Step 4.2: Estimate economic benefits and costs
  - Step 4.3: Calculate net present values for project alternatives
- Step 5: Prepare risk analysis and a plan for their management
- Step 6: Prepare affordability and sustainability analysis
- Step 7: Identify the preferred project alternative and make recommendations for decision-makers.

Usually the FS are outsourced in specialised companies and a role of the municipal staff is to develop an appropriate term of reference, contract the study and check the final result. On the basis of the PCN and the preceding analysis, it should be possible to draw up coherent terms of reference for the feasibility study.

There is no one binding structure of the FS. The exact contents of a Feasibility Study may also vary by sector. However, the above-mentioned Manual indicates the following chapters:

- 1. Executive Summary**
  - Summarize the key findings of the Feasibility Study and recommendations aimed at high-level decision-makers.
- 2. Analysis of the Existing Context for the Project**
  - Review the context for the project, including the current institutional framework.
  - Summarize government policy in the sector/sub-sector in which the project belongs and the respective roles of the State and the private sector.
  - Describe the role of the Economic Entity in the sector/sub-sector and how it became involved in the project. If there have been any previous attempts to initiate the project, explain why these failed.
  - Summarize the findings and conclusions of any preliminary or previous studies, including the pre-feasibility study where relevant.
- 3. Examination of the Project Alternatives**
  - Assess the level and quality of existing public services to be improved by the project and identify any shortcoming or deficiencies, for example, poor quality services or bottlenecks or interruptions in service delivery.
  - Identify who uses and needs the services, so that target users can be identified, for example, target users can be defined geographic location or socio-economic category.
  - Examine the different alternatives for meeting the identified needs for the relevant service. Alternative might include: regulatory changes or improved sector management practices, and no investment; rehabilitating existing facilities; or building completely new facilities.
- 4. Market Assessment and Demand Analysis**
  - Provide a forecast of the potential demand for the defined outputs (services) among the target users of the project and of the expected growth in this demand over the lifetime of the project. Include an estimate of any suppressed demand that is currently not being met because of insufficient coverage or service quality (for example: the capacity of the kindergarten is sufficient comparing to the demography of the municipality but there is low

attendance and low parent's willingness use the services, some parents would be interested sending their children to the kindergarten if the quality of services would be much better).

- Present estimates of the willingness and ability to pay for the services by potential users, where relevant.
- Present forecasts as scenarios representing different possible outcomes, including the most likely outcome and the worst-case scenario.

#### **5. Summary of Technical Studies and Project Costs**

- Provide a technical description of the engineering and non-engineering aspects of the project. This should summarize the technical and technological studies undertaken to assess the technical feasibility of the project and alternatives. Detailed studies should be appended to the Feasibility Study.
- Identify the input parameters for the project and their prices, including labour costs for construction and operation of the project.
- Provide detailed estimates of capital and operating and maintenance costs. Capital cost estimates will be on the basis of the preliminary technical design.

#### **6. Spatial Planning**

- Review spatial planning issues in relation to the project and its location. Summarize the implications for the project of local and national spatial plans.
- Describe the steps proposed to ensure conformity with the plans. Identify the official approvals required to proceed with the project.
- Set out the land acquisition requirements of the project and the procedures and timetable for meeting these requirements. Land acquisition and obtaining approvals must be factored into the project implementation plan.

#### **7. Economic Analysis**

- Present the economic analysis approach - economic cost-benefit analysis or, where appropriate, cost-effectiveness analysis
- Identify and value relevant and material costs and benefits
- Describe the data inputs, estimation techniques and assumptions used

- Present results of economic analysis for the proposed project compared to realistic project alternatives and the do nothing alternative,
- Append detailed work and any economic modelling undertaken for the Feasibility Study to the main report.

#### **8. Risk analysis and management**

- Identify the main sources of risk for the project and assess their impact on the economic feasibility and financial performance of the project and their likelihood.
- Present a plan for managing the key risks, including mitigation measures and reactive measures for if the risks should occur.

#### **9. Financial and Fiscal analysis**

- Present the financial analysis of the proposed project and the results of the assessment of financial sustainability of the operating entity, describing the data inputs and assumptions used to arrive at these results.
- Present an assessment of the net impact on the public finances, including changes in tax revenues, of the proposed project during construction and during operation.
- Append detailed workings and any financial modelling undertaken for the Feasibility Study to the main report.

#### **10. Environmental and Social Impacts**

- Summarize the environmental and social impacts, both positive and negative, of the project.
- Append full environmental and social impact assessments, where undertaken, to the Feasibility Study report.

## **11. Implementation and Operational Arrangements**

- Present an assessment of the capabilities of the organization(s) responsible for implementing and/or operating the project.
- Set out the outline plan and timetable for implementing the project, indicating key milestones in detailed planning, approval and construction.
- Describe the project management arrangements, including the organizational arrangements and the allocation of responsibilities between the different parties involved.
- Outline the organizational arrangements and allocation of responsibilities for operating and maintaining the project once completed.

## **12. Conclusions on Project Feasibility**

- Summarize and interpret the findings of the preceding analyses to arrive at a conclusion concerning the technical and economic feasibility of the project, its sustainability and the associated risks.
- Make recommendations to decision-makers

## Appendix 6: The Capital Investment Planning procedure (example)



Resolution of ..... Municipal Council on procedure on preparation and adoption of Capital Investment Plan.

### § 1

#### Aim of the resolution

The procedure of development and adoption of Capital Investment Plan is being put in force based on this resolution.

### § 2

#### Glossary

**Capita Investment Plan** - Plan of expenditures for investment projects, entirely or partly financed from the municipal budget. The plan presents budgetary expenditures for projects approved for the budget in relevant budgetary year and in a few following years.

**CIP Coordinator** – designated person (or unit) playing key role in CIP process and responsible for coordinating the entire process, organizing meetings of the CIP team, ensuring that all involved parties carry out their tasks on the schedule (according to CIP procedure).

**Applicant** – a person or unit entitled to submit project ideas on Project Concept Note form.

**Project Concept Note** - An outline of the project concept prepared at pre-selection stage, after project identification and before a decision to undertake an in-depth analysis. Project Concepts are submitted base on dedicated form constituting the appendix 1 to the procedure.

**Project Proposal** – Description of possible capital investment projects prepared based on Project Proposal form. Project Proposals are submitted for appraisal and inclusion to Capital Investment Plan.

**Capital Investment Project** - a group of activities with clearly defined objectives and outputs implemented over a fixed time schedule and through a temporary organizational structure.



Capital Project involves the creation of important infrastructure or significant and substantial improvement of the existing one.

**CIP team** – a group consisting of CIP coordinator, representative of Financial Department, Infrastructure Department, [.....] and deputy mayor responsible for investment policy

### **§ 3**

#### **Content of Capital Investment Plan**

1. Capital Investment Plan includes expenses on investment projects and capital repairs as well as purchase of fixed assets.
2. Capital Investment Plan covers 4 budgetary years and includes if applicable expected outlays concerning beyond this horizon.
3. First year of the CIP presents the investment part of the budget at the same time.
4. Capital Investment Plan has to be in line with municipal budget and long-term financial projection.

### **§ 4**

#### **Process stakeholders**

1. Process of submission, evaluation and selection of investment projects to CIP is transparent.
2. Mr/ Mrs [.....] is designated as a CIP Coordinator.
3. The representatives of the following units/ departments are designated as members of CIP team:
  - a. ....
  - b. ....
  - c. ....
4. Applicants entitled to submit their project concept notes are the following entities:
  - a. Mayor and Deputy Mayors,
  - b. Municipal Council (councillors, council commissions),
  - c. Organizational units of the municipality,
  - d. Municipal enterprises,
  - e. Residents (individually or represented by community groups),

- f. Local associations, non - government organizations, other public institutions, local business entities,
5. Capital Investment Plan is approved by the Mayor of the Municipality before submitting to the Municipal Council.

## **§ 5**

### **Main rules regarding submission of project ideas**

1. Project ideas are presented for consideration to the municipality at two stages:
  - (1) as Project Concept Notes submitted by entitled Applicants and
  - (2) as Project Proposals elaborated by departments of the Municipal hall.
2. Project Concept Notes and Projects Proposals should include reliable data.
3. Requests for projects have to be submitted based on PCN form attached to the resolution (appendix .....). Requests for projects submitted in other forms shall not be considered.
4. Forms of Project Concept Notes and Projects Proposals are made available to entitled applicants through web page of the municipality.
5. Collection of Project Concept Notes is a constant activity however Notes submitted after 15 May will not be evaluated in the budgetary year.
6. Submission of PCN may concern new project ideas (not submitted in the past) or existing project ideas.
7. CIP coordinator and with CIP team based on the adopted criteria accept PCN or rejects it giving proper justification. The Coordinator informs applicants about the decision taken.
8. CIP team evaluates and recommends project proposals to be included in CIP.
9. PCNs rejected may be resubmitted after necessary adjustments by applicants.
10. CIP coordinator keeps the register (database) of submitted PCNs and Project Proposals and give each project individual number.
11. Database for submitted PCN and Project Proposals is maintained in an appropriate software application.

## § 6

### Work schedule on Capital Investment Plan

The work schedule on Capital Investment Plan indicating responsible bodies and deadlines for each step is presented below.

No	Stage	Responsible	Deadline
1.	Collecting information about investment needs	Infrastructure Department	Constantly
2.	Initial evaluation of investment needs and development of the list of most important investment needs (project ideas)	Infrastructure Department	By 31 March
3.	Informing stakeholders about launching works on first/ new edition of Capital Investment Plan, request for Project concept Notes	CIP coordinator	By 31 March
4.	Submission of PCN on PCN forms	Applicants	By 15 May
6.	Verification of submitted Project Concept Notes, creation of list of accepted PCNs for further consideration	CIP coordinator, CIP team	By 30 May
7.	Updating of PCN database	CIP coordinator	By 5 June
8.	Elaboration of project proposals based on accepted PCNs; filling in Project Proposal forms	Infrastructure Department and other departments	By 30 June
9.	Development of Long-term Financial Forecast and setting the limit of funds available for investments	Financial Department	By 30 June
10.	Appraisal of project proposals and building first ranking of project	CIP team	By 31 July
11.	Development of draft CIP and submission to the Mayor	CIP team	By 31 August
12.	Applying for external financing and budgeting of projects	Financial Department Unit responsible for applying for external sources	By 30 September
13.	Development of revised CIP, submission of revised CIP to the Municipal council	CIP team, Mayor or deputy mayor responsible for investments	By 31 October
14.	Adoption of Municipal budget and CIP	Municipal Council	By 15 November

## § 7

### Updating of CIP during budgetary year

1. Capital Investment Plan is updated in case of material changes in scope or financial side of investment projects.
2. Introducing any changes in CIP is possible only if appropriate financing is secured. At any time, binding CIP has to present reliable sources of financing for each investment project.

3. Introducing changes to CIP requires decision of the Mayor and Municipal Council passed in a form of a resolution.

## **§ 8**

### **New edition of CIP**

Every year the horizon of the plan is put forward one year and a new edition of CIP is approved. In new editions of CIP real and financial schedules are updated as well as new investment projects are included depending on financial possibilities of the municipal budget.

## **§ 9**

### **Entering into force**

The resolution is in force immediately after being passed by the Municipal Council.

## Appendix 7: Building the ranking of projects (example)



Let's assume that after careful consideration of project proposals the CIP team gave scores to all projects submitted and positively evaluated in 2017 in the municipality A. Eight projects refer to three sectors: Water and sewage, roads and kindergartens.

The projects list, final scores and estimated costs are presented in table below. There also is a schedule of expenditures in the horizon of the capital investment plan (3 years).

### List of projects

Project name	Sector	Score	Estimated cost in GEL thousand (in total)	1st year	2nd year	3rd year
A	Water and sewage	72	400	200	200	
B	Roads	87	250	250		
C	Kindergarten	53	450	200	200	50
D	Water and sewage	89	150	50	100	
E	Water and sewage	62	350	150	200	
F	Roads	66	400	300	100	
G	Roads	49	600	200	200	200
H	Kindergarten	68	150	100	50	

In the meantime, the financial department presented long term forecast of the municipal budget. The forecast sets the limit of funds available for investments at the level of GEL 850 thousand annually.

On the basis of scores achieved we can easily build a ranking of projects, starting from project D (89 points), then project B (87 points) etc. Having estimates of costs for each project (column 4) we can decide on which projects we should include in our draft CIP. We include projects as long as we still have resources available. In our example, we are able to finance projects with ranks 1 to 4 (i.e. projects D, B, A and H) since their total cost is 600 in year 1 and 350 in year 2. i.e. still below our limit of 850 annually. We can also finance partially project F (5th in our ranking), which costs 400 in total. But adding this project we exceed limit of funds available in the first year.

### Capital Investment Plan (Draft)

Project	Sector	Score	Estimated cost in GEL thousand	1st year	2nd year	3rd year
D	Water and sewage	89	150	50	100	
B	Roads	87	250	250		
A	Water and sewage	72	400	200	200	
H	Kindergarten	68	150	100	50	
		<b>TOTAL expenditures</b>	<b>950</b>	<b>600</b>	<b>350</b>	<b>0</b>
		Limit		850	850	850

### Reserve list

Project	Sector	Score	Estimated cost in GEL thousand	1st year	2nd year	3rd year
F	Roads	66	400	300	100	
E	Water and sewage	62	350	150	200	
C	Kindergarten	53	450	200	200	50
G	Roads	49	600	200	200	200

It should be considered if we may postpone some expenditures related to this project and spend more money during the next budgeting period, or wait until results of tenders for projects D, B, A and H, which – if we are lucky – may bring some savings. In this case we can allocate these savings for project F. Projects C, E, G have to be rejected due to insufficient resources.